AR02 File

PROSPECTUS

United Canso Oil & Gas Ltd.

1,398,462 Shares of Capital Stock

Par Value $1. (Canadian)

These securities are offered as a speculation.*

As more fully set forth herein under "Subscription Offer", United Canso Oil & Gas Ltd. is offering to its shareholders the right to purchase shares of capital stock offered hereby through the exercise of Transferable Unit Subscription Rights (hereinafter "Rights"), at the Subscription Price shown below, on the basis of Rights to Subscribe for one Unit for each five shares of capital stock held of record at the close of business on March 30, 1967.

Each Unit will consist of one share of capital stock, plus a Stock Purchase Warrant (hereinafter "Warrant") to purchase one-half (½) of an additional share of capital stock. The Warrants will be quoted and traded in the United States on the basis of the right to purchase one share of capital stock. See "Terms of Offering and Selling Arrangements", page 3.

The Rights will expire at 4:30 P.M. prevailing time at the place of exercise April 28, 1967.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The shares of capital stock of the Company are listed on the Toronto and Canadian Stock Exchanges in Canada and on the American and Pacific Coast Stock Exchanges in the United States. The Company has agreed with the American Stock Exchange that the shares of the Company may be delisted under certain conditions. See further "Voting Rights" at page 26.

The Closing price of the shares of capital stock on March 17, 1967 was $2.60 (Canadian) on the Toronto Stock Exchange and $2.43 (U. S.) on the American Stock Exchange.

The Company reserves the right (a) in connection with sales of blocks of securities of 25,000 shares or more to grant discounts up to 10% and (b) to issue securities for services rendered at their market value on the date of issuance.

The Company will pay compensation to certain dealers or brokers for obtaining the exercise by shareholders to whom the rights were originally issued at the rate of 10¢ per share so subscribed. No commission will be paid by the Company to any broker or dealer in the Provinces of British Columbia, Alberta, Saskatchewan, New Brunswick, Nova Scotia or Prince Edward Island. (See "Subscription Offer")

SUBSCRIPTION PRICE PER UNIT: $2.27 (CAN.) OR $2.10 (U. S.)

	Subscription Price(1)	Underwriting Discounts and Commissions(2)	Proceeds to Company(3)(4)
Per Unit	$2.27 (Can.)	$0.10	$2.17
Total	$2,039,508.74	$89,846.20	$1,949,662.54

(1) United Canso Oil & Gas Ltd. will accept payment of the Subscription price at $2.27, Canadian funds, or $2.10, U. S. funds, for each Unit.

(2) Reference is made to "Subscription Offer" herein for details as to compensation to certain dealers and brokers.

(3) Reference is made to "Use of Proceeds" herein for details as to the disposition of proceeds which may be realized on the sale of subscription units and of shares allocated to unsubscribed units.

(4) Before deducting expenses estimated at $35,000.

No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offense.

* See section entitled "Introductory" page 3.

The date of this Prospectus is March 30, 1967.

This Prospectus does not constitute an offer by United Canso Oil & Gas Ltd. to sell securities in any province or state or other jurisdiction to any person to whom it is unlawful for United Canso Oil & Gas Ltd. to make such offer in such province or state or other jurisdiction. No dealer, salesman or any other person has been authorized to give any information or to make any representation, other than those contained in this Prospectus and if given or made, such information or representation must not be relied upon as having been authorized by United Canso Oil & Gas Ltd. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the Company since the date hereof.

Until June 28, 1967 all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Unless otherwise indicated all dollar figures herein set forth are expressed in Canadian dollars.

The average "unofficial" rates (expressed as the cost in United States currency for Canadian dollars) in New York City for the eight months ending December 31, 1966 in the so-called "free market" for the sale of Canadian dollars, as published in the Federal Reserve Bulletin, ranged from a high of $.9315 to a low of $.9225. On December 30, 1966 such rate was $.9228.

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IN CONNECTION WITH THIS OFFERING THE COMPANY WILL NOT OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SHARES OF CAPITAL STOCK OFFERED HEREBY.

INTRODUCTORY

United Canso Oil & Gas Ltd., a corporation organized under the Canada Corporations Act (herein referred to as "United Canso" or the "Company", which terms include subsidiary unless the text indicates otherwise), has statutory and principal executive offices at 940 Eighth Avenue South West, Calgary, Alberta, Canada. Shares of the capital stock of the Company are traded in the United States on the American Stock Exchange and the Pacific Coast Stock Exchange, and in Canada on the Toronto and Canadian Stock Exchanges. The Company has agreed with the American Stock Exchange that the shares of the Company may be delisted under certain conditions. See further "Voting Rights" at page 26.

The Company is engaged in the exploration and development of properties containing or believed to contain recoverable gas and oil reserves. At present the majority of the properties in which the Company has interests are principally undeveloped (see further section entitled, "History, Business and Properties").

. A portion of the properties was acquired from members of the family of the late William F. Buckley. The Catawba Corporation, which is controlled by members of that family, has rendered administrative, technical and other services to the Company and its predecessor under agreements similar to that presently in effect. The Catawba Corporation has during the past five years to September 30, 1966 earned fees aggregating $1,111,114 (see further section entitled "The Catawba Corporation").

Some of the directors and officers of the Company are neither citizens nor residents of the United States. As a result it may be difficult for persons to effect service within the U. S. upon such directors and officers. There is no assurance that the courts in Canada will enforce judgments obtained in the U. S. courts predicated upon the civil liabilities provisions of the Securities Act of 1933, as amended, or that the Canadian courts will enforce liabilities predicated solely upon the provisions of the said Act in any action originating in Canada.

The Company has paid no dividends on its capital stock for the past five years. The present policy of the Company is to apply any earnings to the developments of its properties and the acquisition of new properties. The accumulated deficit of the Company as at December 31, 1966 was $7,292,402.

TERMS OF OFFERING AND SELLING ARRANGEMENTS

1. Subscription Offer

The Company is issuing to the holders of its outstanding shares of capital stock of record at the close of business on March 30, 1967, the right to subscribe ("Rights") to Units consisting of one share of capital stock and a Stock Purchase Warrant ("Warrant") to purchase one-half (½) of an additional share; one Right to be issued for each share held; five of such rights are required to subscribe for each Unit. No fractional Units may be subscribed for.

Unit Subscription Price

The Subscription Price for the Units is, at the option of the subscriber, either $2.27 (Canadian funds) or $2.10 (U. S. funds) for each Unit subscribed for.

Subscription Certificates

The Rights are evidenced by transferable Subscription Certificates issued in the names of the holders of shares of capital stock of record at the close of business on March 30, 1967.

Expiration Date

The Subscription Certificates evidencing the Rights will become void at 4:30 P.M., prevailing time at the place of exercise, on April 28, 1967, such time being hereinafter referred to as the "Rights Expiration Date".

Method of Exercising Rights

Rights may be exercised by the surrender of Subscription Certificates, with the subscription agreement thereon duly executed, together wtih full payment of the Subscription Price to one of the subscription agents (the "Agents"), as follows:

> Subscribers resident in Canada or elsewhere outside the United States must mail or deliver their Subscription Certificates, accompanied by payment of the Subscription Price, to the following Canadian Agent: Montreal Trust Company, 15 King Street West, Toronto. (See "Certain Foreign Shareholders" below.)
>
> Subscribers resident in the United States must mail or deliver their Subscription Certificates, accompanied by payment of the Subscription Price, to the following United States Agent: First National Bank of Jersey City, P. O. Box 6848, Jersey City, N. J. 07306.

Payment of the Subscription Price should be made by check, bank draft or money order to the order of the Agent to which the Subscription Certificate is surrendered or to the order of the Company.

If an appropriate Agent, before the Expiration Date, receives (i) the full Subscription Price by telegram or otherwise together with a guarantee in writing or by telegram from a bank or trust company or a member firm of the Toronto, Canadian, American or Pacific Coast Stock Exchanges, that a Subscription Certificate with respect to the shares of capital stock subscribed for has been or will be promptly surrendered to such Agent, and (ii) information setting forth the name of the subscriber and the serial number of the Subscription Certificate, subscriptions will be accepted subject to withholding delivery of the shares of capital stock until receipt of the duly executed Subscription Certificate.

Certain Foreign Shareholders

The Subscription Certificates are to be mailed to shareholders whose addresses of record are within Canada or the United States. A letter will be sent air mail to shareholders whose addresses are not within such limits (including shareholders with Army Post Office and Fleet Post Office addresses), advising them that their Subscription Certificates will be issued to and held by the First National Bank of Jersey City for the account of such shareholders who may, prior to twelve o'clock noon, Eastern Standard time, April 27, 1967, instruct such Agent as to the exercise, sale or other disposition of their Rights. If instructions are not received prior to that time, then, as soon as practical and to the extent permitted by law, all such Rights will be sold and the proceeds, if any, remitted to such shareholders or held for their respective accounts.

Purchases and Sales of Rights

Neither the Company nor the Agents will buy or sell rights. To facilitate the purchase or sale of rights by holders through their own brokers, the rights will be admitted to dealing on the American Stock Exchange and posted for trading on the Toronto Stock Exchange.

To facilitate subscriptions the Canadian firm of A. E. Osler & Co., Limited (Osler Building, 11 Jordan Street, Toronto 1, Ontario) a member of the Toronto Stock Exchange, has been appointed by the Company to act as its Soliciting Dealer. The Company will compensate A. E. Osler & Co., Limited at the rate of 10¢ per share on all Rights exercised pursuant to this offering. A. E. Osler & Co., Limited will undertake to rebate 5¢ per share to dealers or brokers for obtaining such exercise by shareholders to whom the Rights were originally issued.

Registration of Shares Issued on Exercise of Rights

Certificates for shares of capital stock subscribed for will be delivered as soon as practicable, registered in the name of the subscriber or in such other name as he may have specified on the Subscription Certificate.

Share Purchase Warrants

Upon the exercise of the Rights as described above, subscribers will receive a Warrant to purchase one-half of a share of capital stock for each Unit subscribed. Warrants will be exercisable in the U. S. and Canada until January 31, 1968. After that date, the Warrants will be exercisable in Canada only, by non-residents of the U. S.; but U. S. residents who are holders of warrants may sell them in Canada.

Warrant Exercise Price

The Warrants entitle the holder to purchase additional shares of capital stock, at the option of the holder, at a price of $3.75 (Canadian funds) for each share of capital stock purchased on or before the close of business on March 31, 1969; $4.50 (Canadian funds), from April 1, 1969 to March 31, 1971, and $5.25 (Canadian funds), from April 1, 1971 to March 30, 1972. Warrants may be exercised in the U. S. before January 31, 1968.

Expiration Dates

The Warrants will become void at 4:30 P.M., prevailing time at the place of exercise, on March 30, 1972.

Method of Exercising Warrants

The right to purchase additional shares of capital stock represented by Warrants may be exercised by the surrender of Warrants, with the purchase agreement thereon duly executed, together with full payment of the Warrant Exercise Price to one of the subscription agents (the Agents), as follows: Holders must mail or deliver their Warrants, accompanied by payment of the Exercise Price, to the Montreal Trust Company, 15 King Street West, Toronto or, on or before January 31, 1968 to the First National Bank of Jersey City, P.O. Box 6848, Jersey City, N. J. 07306. Payment of the Exercise Price should be made by check, bank draft or money order to the order of the agent to which the warrant is surrendered or to the order of the Company. After January 31, 1968, residents of the U. S. may not exercise their Warrants. They may, however, sell their Warrants to non-residents of the U. S. To facilitate such sales, the Company intends to list the Warrants on the Toronto Stock Exchange.

2. Shares Not Committed Through Exercise of Unit Subscription Rights

Any shares of capital stock which are registered hereunder, and which have not been sold or committed to Stock Purchase Warrants as a result of the exercise of Rights, will be offered to the public at the market price, from time to time, through the facilities of the Toronto and American Stock Exchanges. However, if insufficient units are subscribed to ensure, in the opinion of management, an orderly public market in Warrants, the Company may, at its discretion, commit sufficient additional shares to Stock Purchase Warrants, and to sell such Warrants to the Canadian public at market, provided that in the aggregate no more than 500,000 shares registered hereunder shall be committed to Warrants.

In the case of sales made through the facilities of the American Stock Exchange the Company through one of its officers will instruct a broker to sell shares of the Company "at the market" by means of meeting a portion of the outstanding bids but (a) generally not to sell in excess of 10-15% of the volume of bids over a period of time and specifically not under any circumstances to depress the market value of the securities, and (b) not to sell below a specified price without further authorization. The total sales volume on the American Stock Exchange of shares or Voting Trust Certificates representing shares (the Voting Trust expired April 20, 1964) for the years 1964, 1965 and 1966 amounted to 2,044,700 shares, 1,685,000 shares and 2,457,000 shares respectively. The total sales volume on the Toronto Stock Exchange for the years 1964, 1965 and 1966 amounted to 412,872 shares, 981,884 shares, and 1,341,383 shares respectively. The price range of such shares (or Voting Trust Certificates) on the American Stock Exchange was as follows (prices expressed in U. S. dollars):

	High	Low
1964		
Jan. to Mar.	2.00	1.187
Apr. to June	2.00	1.50
July to Sept.	3.187	1.75
Oct. to Dec.	3.312	2.562
1965		
Jan. to Mar.	3.50	2.50
Apr. to June	3.50	2.25
July to Sept.	3.187	2.562
Oct. to Dec.	3.682	2.75
1966		
Jan. to Mar.	3.812	2.937
Apr. to June	3.25	2.25
July to Sept.	3.062	1.937
Oct. to Dec.	3.682	2.625
1967		
January to March 15	3.437	2.437

The Company reserves the right (a) in connection with sales of blocks of securities of 25,000 shares or more to grant discounts up to 10% and (b) to issue securities for services rendered at their market value on the date of issuance.

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UNITED CANSO OIL & GAS LTD.

(A Canadian corporation)

CONSOLIDATED STATEMENT OF LOSS (INCOME) AND ACCUMULATED DEFICIT

(Expressed in Canadian dollars)

The following consolidated statement of loss (income) and accumulated deficit of United Canso Oil & Gas Ltd. for the five years ended September 30, 1966 has been examined by Arthur Young, Clarkson, Gordon & Co., independent public accountants, whose report with respect thereto appearing elsewhere herein contains a qualification with respect to the effect of such adjustment as would result from failure to realize in the future the amounts at which investments in and advances to the Australian companies and nonproducing property and equipment are carried in the consolidated balance sheet (Note 1). The information for the three month periods ended December 31, 1965 and 1966 is unaudited but includes all adjustments consisting only of normal recurring accruals which the Company considers necessary for a fair presentation of the results for those periods. Due to the seasonal nature of the Company's operations the results for the three month period ended December 31st may not be representative of the results for the entire fiscal year. This statement should be read in conjunction with the other financial statements, together with the notes thereto, appearing elsewhere herein.

	Year ended September 30,					Three months ended December 31, (Unaudited)	
	1962	1963	1964	1965	1966	1965	1966
Revenues:							
Oil sales	$1,164,589	$1,184,387	$1,249,860	$1,179,189	$1,777,711	$ 416,119	$ 450,920
Gas sales	563,450	544,761	524,801	713,881	680,953	178,428	187,369
Royalties	38,023	32,739	32,348	22,085	37,800	9,464	15,676
Interest	73,244	82,188	48,659	34,241	7,404	2,938	3,380
	1,839,306	1,844,075	1,855,668	1,949,396	2,503,868	606,949	657,345
Cost and expenses (Note 6):							
Lease operating expenses	317,058	331,586	368,219	375,548	486,600	113,559	117,416
Lease and permit rentals	100,917	55,840	118,938	149,155	167,912	23,583	26,480
Geological and geophysical expenses	4,175	138,772	124,133	137,034	165,272	3,986	5,717
Depletion, depreciation and amortization	661,247	645,579	598,038	568,409	747,096	159,363	185,569
Dry holes and abandonments	586,338	358,706	557,529	112,143	294,310	77,012	35,174
Loss (gain) on sales of property and equipment	(14,139)	(26,518)	(134,075)	202,445	(303)	(118)	(1,048)
Reduction of book value of shares of Canada Southern Petroleum Ltd.	—	49,128	—	—	—	—	—

General and administrative expenses:							
Salaries and employee benefits	330,325	337,465	335,207	327,529	398,997	100,681	109,392
Financial, technical and other services under contract (Note 4)	233,692	201,820	221,969	240,912	212,721	37,062	37,736
Office rent, traveling, special services and other expenses	195,155	170,967	158,278	182,044	193,429	34,810	35,807
Legal fees and expenses	60,433	76,812	135,088	65,857	46,586	14,056	7,261
Stockholders' reports and capital stock expenses	34,792	37,118	83,580	37,452	34,716	4,885	4,013
Auditing fees and expenses	9,869	14,149	14,912	12,473	9,473	—	758
General and administrative expenses charged to:							
Lease operating expenses	(69,863)	(77,218)	(88,062)	(95,521)	(174,797)	(33,554)	(26,679)
Geological and geophysical expenses	—	(109,137)	(107,236)	(126,732)	(132,848)	(3,500)	(5,500)
Others	(15,249)	(56,432)	(48,012)	(42,500)	(8,292)	(4,350)	(1,050)
	2,434,750	2,148,637	2,338,506	2,146,248	2,440,872	527,475	531,046
Net loss (income)	595,444	304,562	482,838	196,852	(62,996)	(79,474)	(126,299)
Special credit—sale of subsidiary (Note 1)	—	—	—	(580,808)	—	—	—
Net loss (income) and special credit	595,444	304,562	482,838	(383,956)	(62,996)	(79,474)	(126,299)
Accumulated deficit at beginning of period	6,482,809	7,078,253	7,382,815	7,865,653	7,481,697	7,481,697	7,418,701
Accumulated deficit at end of period	$7,078,253	$7,382,815	$7,865,653	$7,481,697	$7,418,701	$7,402,223	$7,292,402
Per share of stock outstanding at end of period:							
Net loss (income)	$ .15	$ .07	$ .11	$ .04	$(.01)	$(.02)	$(.03)
Special credit	—	—	—	(.13)	—	—	—

References above to Notes 1, 4 and 6 refer to notes to financial statements.

United Canso has not established a production base substantial enough to support the exploration and development programs it has undertaken. Consequently, net losses were recorded for the four years ended September 30, 1965.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the securities being offered hereby after deducting expenses are estimated at $1,914,662, assuming that all of the Rights covered by this Prospectus are subscribed to at a price of $2.27 per Unit.

The proceeds from the sale of the securities will be added to the funds of the Company and will be used primarily for participation with other companies in a long-term program to acquire, explore and develop properties in areas of western Canada which are considered potentially attractive, particularly with reference to possible Devonian* production. A portion of such proceeds may also be used for other exploration and development programs in Canada. It is proposed to use the proceeds of the sale of these securities for these activities to the extent that such proceeds are received. While the Company reserves the right to issue securities for services rendered, Management has no present arrangements or intentions to issue such securities to any individual, corporation or partnership.

CAPITALIZATION

The capitalization of the Company at December 31, 1966, is as follows:

	Amount authorized	Amount outstanding as at December 31, 1966	Amount to be outstanding if all securities offered to the public are sold
Capital Stock of a par value of $1 (Canadian) per share	6,000,000	4,492,311	5,890,773
Demand Bank Loan	—	$378,153	$378,153

10,000 shares are reserved for the future grant of options at December 31, 1966.

* Devonian — a geological name for certain rock strata which have been found productive in northwestern Alberta and the adjacent southern portion of the Northwest Territories.

There follows a diagram indicating all publicly owned corporations which The Catawba Corporation services and with which the family of the late William F. Buckley is associated:

United Canso Oil & Gas Ltd.	Magellan* Petroleum Corp.	Pancoastal* Petroleum Limited	Canada Southern Petroleum Ltd.	San Jose Oil* Company, Inc.	Pantepec* International Petroleum, Ltd.	Coastal Carib.* Oils & Minerals, Ltd.
I	I	II	I	I	II	II
II	II	IIIb	II	II	IVx	IVx, y
IIIa	IIIb		IIIb			

*Companies stock of which held under voting trust.

Key indicating nature of association of Buckley family:

I — Significant stock or voting trust certificate ownership.

II — Representation in management.

Other important characteristics:

III — Listed on American Stock Exchange.

a — Sufficient cash flow in lieu of net income requirement.

b — Exploration agreement with major company or companies.

IV — Listed on National Stock Exchange.

x — Formerly listed on American Stock Exchange.

y — Exploration agreement with major company.

No company other than United Canso has had net income for any of the past five years. See further "INTRODUCTORY" as to the amount paid to The Catawba Corporation by the Company; substantial amounts have been paid by the other companies listed above over the same period.

HISTORY, BUSINESS AND PROPERTIES

The Company was organized on April 13, 1954 under the Canadian Corporations Act pursuant to the Plan of Reorganization dated March 1, 1954 of Canada Southern Oils, Ltd. a Canadian corporation (hereinafter sometimes the "predecessor Company"). The Plan was consummated on April 20, 1954 and provided for the acquisition of the assets of Canada Southern Oils, Ltd., subject to its liabilities by three new Canadian corporations, Canada Southern Petroleum Ltd., Canso Natural Gas Ltd. and the Company (originally named "Canso Oil Producers Ltd."). All the capital stock of the Company was deposited under a Voting Trust Agreement which expired in 1964.

The assets transferred to the Company upon the consummation of the 1954 Plan of Reorganization included all the producing and partially developed properties of the predecessor company located principally in the Smiley-Dewar-Coleville area of Saskatchewan together with related physical equipment and other assets.

In 1958 Canso Natural Gas Ltd. was amalgamated with the Company and the Company's name was changed to United Canso Oil & Gas Ltd. effective July 1, 1958. Canso Natural Gas Ltd. had acquired from the predecessor Company the interests in the natural gas contained in all of the then properties of the Company's predecessor located in Canada or the United States, together with certain properties located in Saskatchewan, Alberta and Manitoba, and oil and gas permits located in British Columbia. Subsequently, in 1958 the assets of Pan Western Oils Limited, a Canadian corporation, were acquired in exchange for 712,755 shares of capital stock of the Company in the form of Voting Trust Certificates.

In 1954 the Company acquired a 50% interest in Act Oils Limited (hereinafter "Act Oils") from a group of twelve persons, consisting of John W. Buckley, James L. Buckley and others related to or associated with them. The remaining 50% interest in Act Oils was acquired at the same time by Canada Southern Petroleum Ltd. In October 1965 the Company sold its share ownership in Act Oils to Canada Southern Petroleum Ltd. In a related transaction United Canso in November 1965 purchased certain property interests and equipment in Northeastern British Columbia from Act Oils. The end result of these transactions was that United Canso converted its beneficial interest in the properties held by Act Oils to a direct one.

Effective January 1, 1961 the Company purchased from Canada Southern Petroleum Ltd. all of the outstanding stock of a Wyoming corporation, since renamed United Western Oil & Gas Company (United Western). During the year ended September 30, 1965, United Canso acquired certain non-producing leases and other asets from its then wholly-owned U. S. subsidiary United Western. These assets were then transferred to Canso Oil & Gas, Inc., a new wholly-owned U. S. subsidiary. Subsequently, United Canso sold its 100% capital stock interest in United Western, realizing a gain of $580,808.

In 1961, the Company obtained Permit 56 covering some 6,000,000 acres in the Northern Territory of Australia. In 1963 the Company sold a 50% interest in United Canso Oil & Gas Co. (N.T.) Pty. Ltd., then a wholly owned Australian subsidiary through which Permit 56 was held together with certain advances to Oil Investments, Inc. for $100,947 representing one half of the cost of the Company's investment therein. In a subsequent transaction in August 1963, the Company and Oil Investments, Inc. reached an understanding with Magellan Petroleum Corporation to exchange a one-third (⅓) interest in United Canso Oil & Gas Co. (N.T.) Pty. Ltd. for a one-third (⅓) interest in Magellan Petroleum (N.T.) Pty. Ltd., which holds title to O.P. 43 in the Amadeus Basin and which was then wholly owned by Magellan Petroleum Corporation. Subsequently United Canso purchased twenty

(20%) percent of Magellan Petroleum Corporation's interests in Australia, so that the Company now owns 40% of United Canso Oil & Gas Co. (N.T.) Pty. Ltd., 30% of Magellan Petroleum (N.T.) Pty. Ltd. and 20% of Magellan Petroleum (Qld.) Pty. Ltd.

The above described Australian companies have in turn entered into agreements with Texaco Overseas Petroleum Company — California Asiatic Oil Company, Exoil (N.T.) Pty. Ltd. and Centralia Oil Pty. Ltd. covering continued exploration of all or portions of the permits held in return for which up to a 50% working interest in certain of the permit areas have been or may be earned.

During the year ended September 30, 1965, certain of the Australian companies transferred approximately one-sixth of their working interests in portions of permits O.P. 43 and O.P. 56 to Freeport of Australia, Incorporated for a total consideration of $1,700,000 (U. S.). Such amount was applied by the Australian companies as a reduction of their permit and concession carrying values.

In 1961 United Canso acquired a one-half carried interest in Pancoastal Petroleum Limited's (then Pancoastal Petroleum Company) 50% undivided interest in a non-producing concession in Venezuela. During 1964, a well was drilled on this concession at Pancoastal's expense, resulting in the discovery of a field of low-gravity oil. Effective January 1, 1966, as a result of an agreement with Texas Petroleum Company (Texpet) United Canso's interest in Venezuela was exchanged for a cash payment of $53,797, a 50% interest in a sliding-scale royalty ranging from 3¢ to 8¢ per barrel on 50% of the gross production from the concession in excess of 5,000 barrels per day and the undertaking by Texpet to drill a minimum of three exploratory wells on the concession. During the first quarter of 1967 Texpet drilled the required three wells, all of which resulted in dry holes.

Interest of Management in the above transactions

Certain of the officers and directors of the Company are also voting trustees, officers or directors of the principal companies that were parties to contracts and transactions outlined above, that is, besides the Company, Canada Southern Petroleum Ltd., Pantepec International Petroleum, Ltd., Magellan Petroleum Corporation and Pancoastal Petroleum Limited. In addition all of the latter companies have retained The Catawba Corporation, of which 100% of the outstanding voting stock is held by the family of the late William F. Buckley, to perform the services described in the section entitled "The Catawba Corporation". Any relation between the officers and directors of these companies and United Canso is more fully described in the section entitled "Directors and Officers". Certain officers and directors of the Company are shareholders in the above named Companies.

The Catawba Corporation receives a $\frac{1}{64}$th overriding royalty in each oil, gas or mineral lease, permit or reservation acquired by the Company during the term of its agreement hereinafter described.

UNITED CANSO OIL & GAS LTD.

ACREAGE TABLE SHOWING TYPE OF INTEREST HELD

(September 30, 1966)

Location	Working Interest	Carried Interest(1)	Royalty Interest(2)	Total
British Columbia				
Gross Acres	298,380	344,589	—	642,969
Net Acres	25,171	8,615	—	33,786
Alberta				
Gross Acres	484,687	16,000	11,572	512,259
Net Acres	127,460	240	—	127,700
Saskatchewan				
Gross Acres	211,575	—	155,028	366,603
Net Acres	99,261	—	—	99,261
Manitoba				
Gross Acres	10,282	—	2,648	12,930
Net Acres	9,703	—	—	9,703
Total Western Provinces				
Gross Acres	1,004,924	360,589	169,248	1,534,761
Net Acres	261,595	8,855	—	270,450
Arctic Islands				
Gross Acres	6,814,030	—	—	6,814,030
Net Acres	3,263,994	—	—	3,263,994
Northwest Territories				
Gross Acres	95,140	—	—	95,140
Net Acres	23,785	—	—	23,785
Wyoming				
Gross Acres	151,477	—	—	151,477
Net Acres	55,157	—	—	55,157
Australia				
Gross Acres	22,007,680	—	—	22,007,680
Net Acres	5,805,663	—	—	5,805,663(4)
Venezuela				
Gross Acres	—	—	21,000(3)	21,000
Net Acres	—	—	—	—
Total				
Gross Acres	30,073,251	360,589	190,248	30,624,088
Net Acres	9,410,194	8,855	—	9,419,049(4)

(1) **Carried Interests**

Wherein operating charges are applied against proceeds before a return is paid. The holder of a carried interest is not obliged to share operating expenses at the time they are made.

(2) **Royalties**

Royalties are rights to a portion of petroleum and natural gas ownership without any obligation toward maintenance, development or operating costs.

(3) Converted to overriding royalty January 1, 1966.

(4) Reduced in January 1967 by 931,456 net acres upon completion by Amoseas of exploration obligations in Queensland.

PRODUCTION AND DEVELOPMENT

Canada

General

Total production of crude oil and gas to the Company's interest (after deduction of royalties) for the last five fiscal years is as follows.

TABLE A

	Productive Wells At Sept. 30, 1966		Net Production(1) (after royalties) in Canada for Fiscal Years ending September 30				
	Gross	Net	1966	1965	1964	1963	1962
Oil (Bbls.)							
Alberta	342	8.09	58,964	70,243	76,680	74,934	85,231
British Columbia	159	7.29	121,578	113,597	140,763	162,886	93,551
Saskatchewan	214	69.84	578,876	414,025	352,733	346,834	344,920
Total	715	85.22	759,418	597,865	570,176	584,654	523,702
Bbls./Day			2,081	1,638	1,558	1,602	1,435
Gas(2) (M. Cu. ft.)							
Alberta	45	11.81	1,692,081	1,667,474	1,461,867	1,601,059	1,627,886
British Columbia	25	.88	317,393	318,130	215,948	172,289	270,960
Saskatchewan	48	18.32	4,362,603	4,231,893	3,903,894	4,090,030	4,286,491
Total	118	31.01	6,372,077	6,217,497	5,581,709	5,863,378	6,185,337
M. Cu. ft./Day			17,458	17,034	15,251	16,064	16,946

(1) Excludes United Canso net production in Wyoming from properties sold in 1965 which (before royalties) amounted to:

	1966	1965	1964	1963	1962
Oil (Bbls.)	—	23,639	84,444	62,515	62,433
Gas (M. Cu. ft.)	—	5,609	27,501	28,344	—

(2) Gas Production including casinghead and plant gas; 1 M. Cu. ft. = 1,000 cubic feet.

During 1966, United Canso participated in the drilling of 35 development wells, resulting in 23 oil wells (7.95 net wells) and 5 gas wells (0.51 net wells). The year's production from the various fields, compared to previous years, is shown in Tables 1-3. Gross and net productive wells are also shown.

Oil production is currently (January 1967) at the rate of approximately 2,400 barrels per day (2,060 net barrels per day). The increase in potential resulting from the new wells in the Innes field was offset by the establishment of well allowables by the Provincial authorities limiting total production for the field to 3100 barrels per day.

During 1966 gas production showed a slight increase mostly due to an improved load factor in Saskatchewan fields as increased use is made of storage facilities.

During 1966 development continued in the Innes Field in Saskatchewan. Since September 30, 1965 United Canso has added working interests in 15 additional wells, equivalent to 4.875 net wells, plus a royalty interest in three more on leases which were farmed out. One new 100-percent-owned well was completed in Wilmar, and in Midale two new wells are now yielding royalties to the Company (see further section "Saskatchewan").

The Company does not own or operate any drilling rigs or geophysical equipment. These services are obtained by contract under the supervision of the Company's engineers, geologists and other technical personnel.

Included herein are maps showing:

(i) The properties in Canada in which the Company owns interests;

(ii) The approximate gross acreage thereof;

(iii) The interest therein of the Company, and the development which has occurred thereon to date.

The share of estimated annual charges payable by the Company for lease rentals and drilling commitments in order to maintain its properties for the year ending September 30, 1967 is estimated at a maximum of $345,000. It should be noted that this figure is based upon the properties held as of September 30, 1966, and that the interests of the Company may change due to the acquisition of new interests, the conversion of permits into leases and the abandonment of interests which are no longer considered worthwhile by the Company.

Alberta

United Canso held working interests, as at September 30, 1966, in a total of 342 oil wells (8.09 net wells) and 45 gas wells (11.81 net wells). Production to the Company's interest (after royalties) for each of the last five fiscal years is shown in Table 1.

TABLE 1

ALBERTA

	Productive Wells Sept. 30, 1966		Net Production (after royalties) For Fiscal Year ending September 30				
	Gross	Net	1966	1965	1964	1963	1962
Oil (barrels)							
Acheson	3	1.50	20,971	21,345	21,379	23,188	24,674
Baxter Lake	—	—	—	—	—	2,127	7,533
Leduc (D-2 Unit)	335	4.84	26,815	37,928	46,581	47,567	53,024
W. Drumheller	4	1.75	11,178	10,970	8,720	2,052	—
Total Oil	342	8.09	58,964	70,243	76,680	74,934	85,231
Natural Gas (Mcf)							
Acheson Unit (Lower Cretaceous)	2	0.02	1,999	2,365	4,472	4,512	3,304
Pakowki Lake	7	3.50	430,647	434,328	524,496	485,885	512,051
Pendant d'Oreille	2	1.50	138,915	132,324	68,597	127,504	106,052
Sibbald (North)	5	0.32	139,327	110,497	—	—	—
Sibbald (South)	5	1.25	330,211	360,160	358,865	314,218	294,102
Smith Coulee	4	4.00	451,844	454,199	361,706	569,989	614,040
Sylvan Lake	14	1.02	63,386	20,465	—	—	—
Three Hills Creek	6	0.20	79,035	88,416	80,924	48,564	47,000
Sub-Total	45	11.81	1,635,364	1,602,754	1,399,060	1,550,672	1,576,549
Casinghead Gas (Mcf)							
Acheson	—	—	9,501	7,574	7,204	6,356	6,115
Leduc (D-2 Unit)	—	—	47,216	57,146	55,603	44,031	45,222
Total Gas	45	11.81	1,692,081	1,667,474	1,461,867	1,601,059	1,627,886

Developments in Alberta

During the winter of 1965-1966 United Canso, Freeport and Gridoil joined in the drilling of a well Roe 10-12-117-20 W5 to earn a 50 percent interest in a 5,760-acre block owned by Hudson's Bay Oil and Gas Company Limited. The drilling of this well earned the group an option to acquire 50 percent of another 5,760 acre block. They have elected to drill the second earning well, which will be drilled following completion of a detailed seismic program over the lands. The partners also purchased a 43,520-acre permit (United Canso 7.5 percent) adjacent to the west side of the Hudson's Bay farmout lands, and a second 7,680 acre (United Canso 25 percent) permit east of the farmout lands.

During 1965-1966 one wildcat was drilled in south-central Alberta on Company leases in the Wilmar area to evaluate Crown sale lands. The well was abandoned and United Canso did not bid on the Crown lands.

Lands at Gladys Ridge in which the Company had a 12.5 percent carried interest were evaluated by a Devonian test drilled by Amerada and others. The well was abandoned.

The Company is participating with a number of other companies in the evaluation of its prospective properties in the Roe Creek and Bistcho Lake areas. The Company's interests in 147,520 gross acres (25,207 net acres) are spread across twenty-one townships in these areas.

At Bistcho Lake the Company has an interest in 90,560 gross acres (United Canso 19,283 net acres). In the winter 1965-1966 Canada-Cities Service drilled a well on a block of 39,200 acres which tested gas on drillstem test at the rate of 1.79 MMcf. per day, but was abandoned as being non-commercial for the area at the present time. By agreement, Canada-Cities Service may earn a one-half interest in the 39,200 acres by drilling two additional wells during the winter months of 1966-1967. They have conducted seismic survey prior to the drilling of the commitment wells, the first of which has been spudded and is presently drilling. United Canso (25 per cent), Altana, Gridoil, Dome and Great Plains, who own jointly another 22,880 acres in the Bistcho Lake area, are conducting a detailed seismic program to evaluate the leases and adjoining Crown lands.

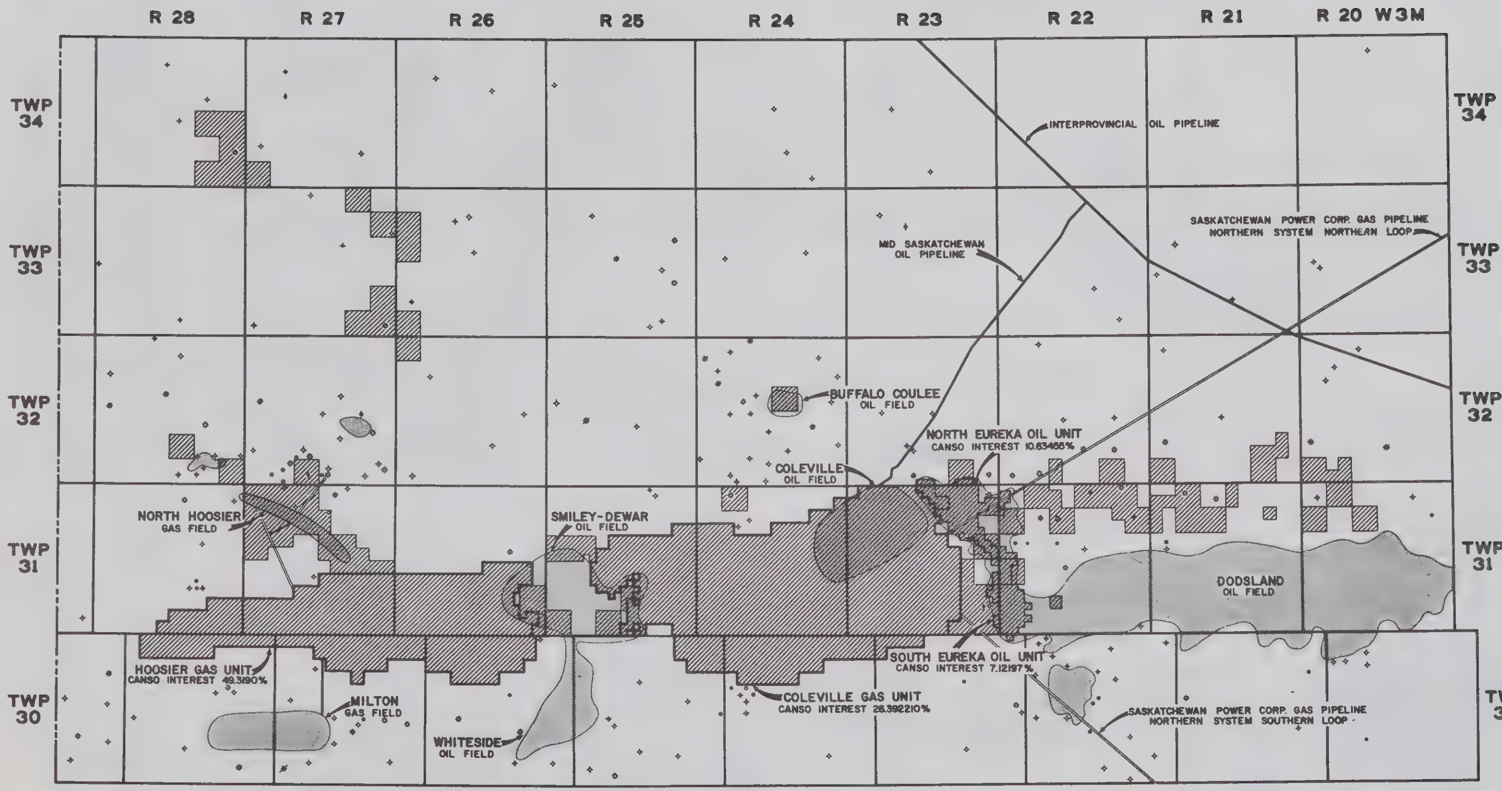
Unitization of the North Sibbald gas field, comprising both Viking sand and Bakken sand reservoirs became effective in September, 1964, and sale of production from this Unit is also to the Saskatchewan Power Corporation. Additional wells have since been added to the system.

In 1964 a stepout well encountered gas, which added to the reserves in the area, and was completed for connection to the system at a later date as demand requires. United Canso's interest in the Unit and this new well is 6.34 percent.

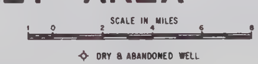
In January 1967 the Company agreed to participate in a proposed heavy oil development program in the Cold Lake area of eastern Alberta. Although details have not been finalized, the Company expects to commit itself to an expenditure of $500,000 over the next two to three years.

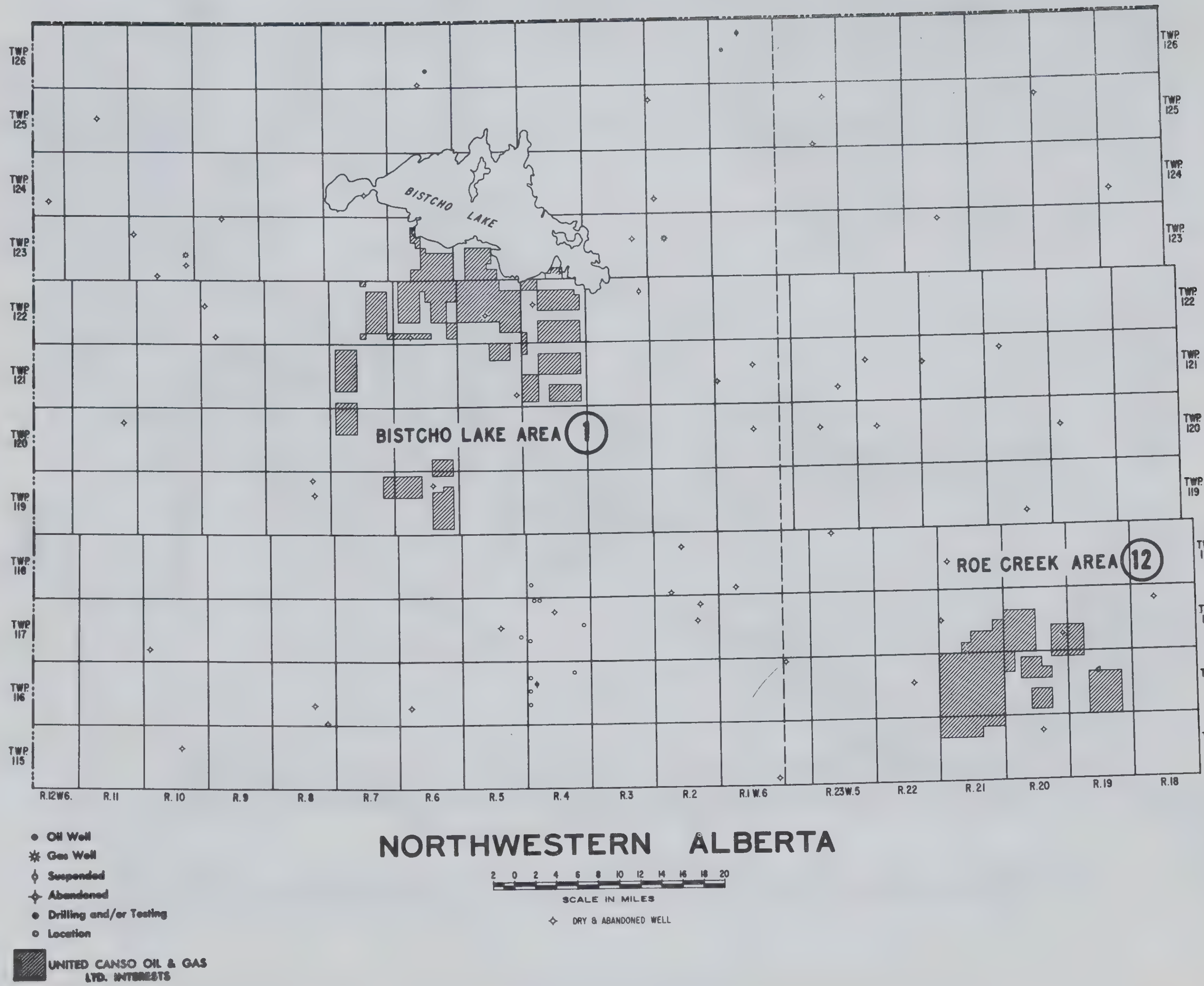
Saskatchewan

United Canso held working interests, as at September 30, 1966, in a total of 214 oil wells (69.84 net wells) and 48 gas wells (18.32 net wells). Production to the Company's interest (after royalties) for each of the last five fiscal years is shown in Table 2.

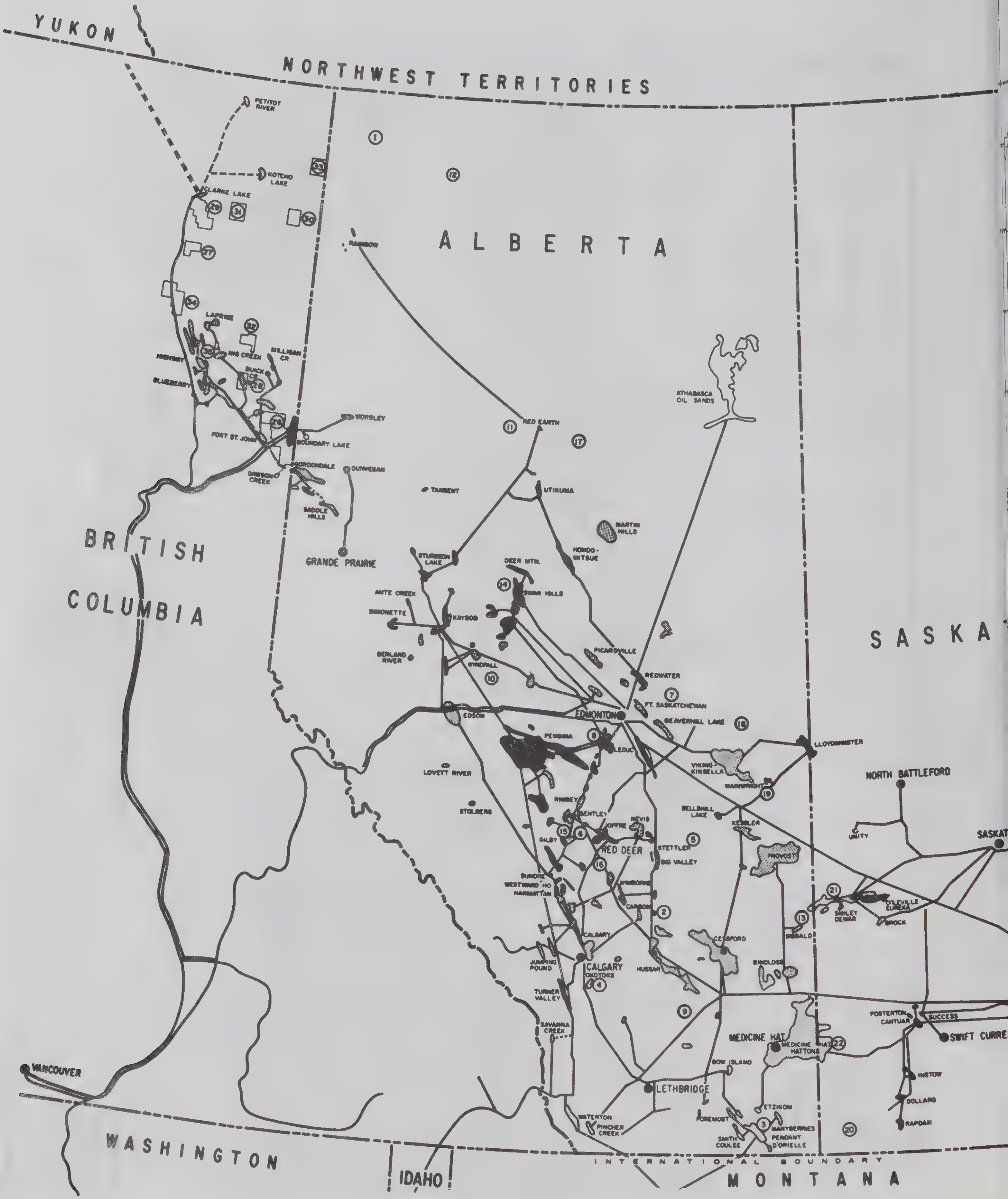


GREATER SMILEY AREA - SASKATCHEWAN (21)



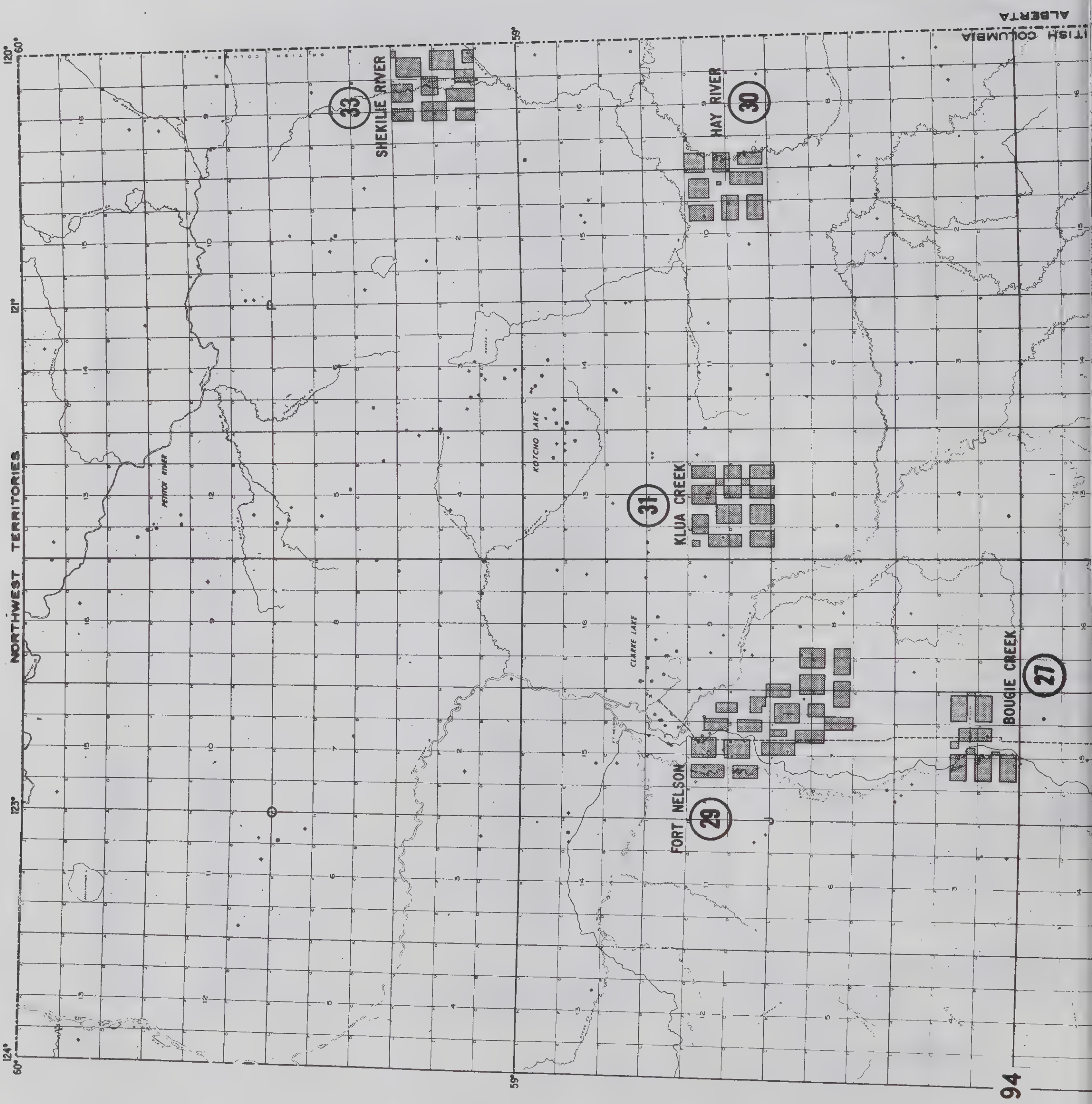


NORTHWESTERN ALBERTA
BISTCHO LAKE AREA 1
ROE CREEK AREA 12
BISTCHO LAKE
TWP. 126
TWP. 125
TWP. 124
TWP. 123
TWP. 122
TWP. 121
TWP. 120
TWP. 119
TWP. 118
TWP. 117
TWP. 116
TWP. 115
R.12W6.
R.11
R.10
R.9
R.8
R.7
R.6
R.5
R.4
R.3
R.2
R.1W.6
R.23W.5
R.22
R.21
R.20
R.19
R.18
2 0 2 4 6 8 10 12 14 16 18 20
SCALE IN MILES
DRY & ABANDONED WELL
Oil Well
Gas Well
Suspended
Abandoned
Drilling and/or Testing
Location
UNITED CANSO OIL & GAS LTD. INTERESTS

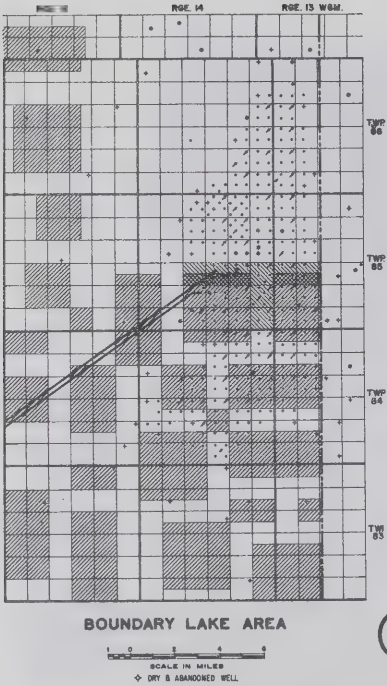

YUKON
NORTHWEST TERRITORIES
ALBERTA
BRITISH COLUMBIA
SASKAT
WASHINGTON
IDAHO
MONTANA
INTERNATIONAL BOUNDARY
PETITOT RIVER
KOTCHO LAKE
CLARKE LAKE
RAINBOW
LAPRISE
BIG CREEK
MILLIGAN CR.
BLUEBERRY
BUICK CR.
FORT ST. JOHN
BOUNDARY LAKE
WORSLEY
DAWSON CREEK
DURVEGAN
SADDLE HILLS
GRANDE PRAIRIE
RED EARTH
UTIKUMA
TANGENT
MARTIN HILLS
ATHABASCA OIL SANDS
STURGEON LAKE
DEER MTN.
SWAN HILLS
KAYBOB
SIMONETTE
BERLAND RIVER
WINDFALL
PICARDVILLE
REDWATER
FT. SASKATCHEWAN
EDMONTON
BEAVERHILL LAKE
EDSON
PEMBINA
LEDUC
LLOYDMINSTER
VIKING-KINSELLA
WAINWRIGHT
LOVETT RIVER
NORTH BATTLEFORD
STOLBERG
RIMBEY
BENTLEY
JOFFRE
NEVIS
BELLSHILL LAKE
KESSLER
UNITY
GILBY
RED DEER
STETTLER
BIG VALLEY
PROVOST
SASKAT
WESTWARD HO
HARMATTAN
CARBON
SMILEY DEWAR
BROCK
SIBBALD
CALGARY
JUMPING POUND
OKOTOKS
HUSSAR
CESSFORD
BINDLOSS
TURNER VALLEY
SAVANNA CREEK
MEDICINE HAT
FOSTERTON CANTUAR
SUCCESS
SWIFT CURRE
BOW ISLAND
LETHBRIDGE
INSTOW
DOLLARD
RAPDAN
VANCOUVER
WATERTON
PINCHER CREEK
FOREMOST
ETZIKOM
MANYBERRIES
SMITH COULEE
PENDANT D'ORIELLE

UNITED CANSO OIL & GAS LTD.
ACREAGE HOLDINGS IN CANADA
September 30, 1966

	Gross	Net
ALBERTA		
1. Bistcho Lake	90,560	19,283
2. Carbon-Drumheller	2,800	1,229
3. Foremost-Pakowki Lake	36,951	21,357
4. Gladys Ridge	25,990	4,024
5. Halkirk	17,727	3,491
6. Innisfail	10,601	4,179
7. Lamont	5,440	1,813
8. Leduc	13,940	210
9. Lomond	27,063	12,040
10. Mahaska	1,440	360
11. Otter Lake	1,760	440
12. Roe Creek	56,960	5,924
13. Sibbald	80,788	10,063
14. Swan Hills	20,480	2,640
15. Sylvan Lake	28,320	160
16. Three Hills Creek	23,835	800
17. Trout Mountain	16,000	—
18. Vermilion	14,240	14,240
19. Wainwright	22,400	17,280
Other Areas	14,964	8,167
	512,259	127,700
SASKATCHEWAN		
20. Battle Creek	4,641	1,856
21. Coleville-Hoosier	134,268	50,281
22. Hatton	135,895	—
23. Hume	83,036	44,624
24. S. E. Saskatchewan	4,320	1,325
Other Areas	4,443	1,175
	366,603	99,261
MANITOBA		
25. Pierson-Waskada	12,930	9,703
BRITISH COLUMBIA		
26. Boundary Lake	204,873	13,696
27. Bougie Creek	34,671	2,600
28. Buick Creek	57,998	1,450
29. Fort Nelson	87,301	2,183
30. Hay River	40,189	1,005
31. Klua Creek	51,717	3,379
32. Martin Creek	34,031	851
33. Shekile River	43,302	3,248
34. Sikanni Chief	86,113	3,950
35. Sojer	2,774	924
	642,969	33,786
ARCTIC ISLANDS	6,814,030	3,263,994
NORTHWEST TERRITORIES	95,140	23,785


NORTHWEST TERRITORIES
ALBERTA
SHEKILIE RIVER
33
HAY RIVER
30
KLUA CREEK
31
FORT NELSON
29
BOUGIE CREEK
27
KOTCHO LAKE
CLARKE LAKE
PETITOT RIVER
94
120°
121°
123°
124°
60°
59°


N.E. BRITISH COLUMBIA
SCALE IN MILES
DRY & ABANDONED WELL
Oil Well
Gas Well
Suspended
Abandoned
Drilling and/or Testing
Location
UNITED CANSO OIL & GAS LTD. INTERESTS
SIKANNI CHIEF
34
MARTIN CREEK
32
SOJER
35
BUICK CREEK
28
BOUNDARY LAKE
26
57°
56°

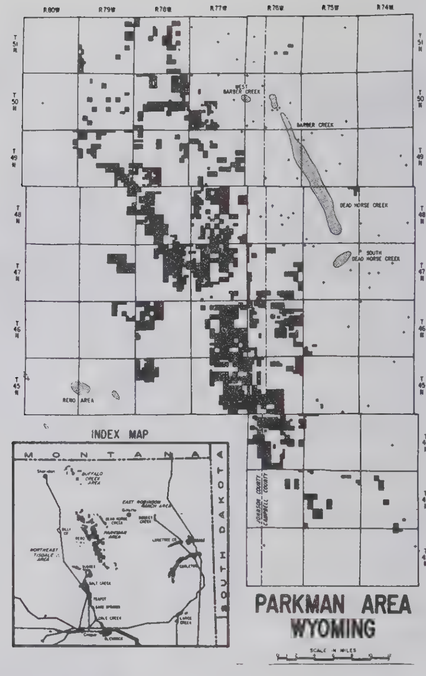


BOUNDARY LAKE AREA

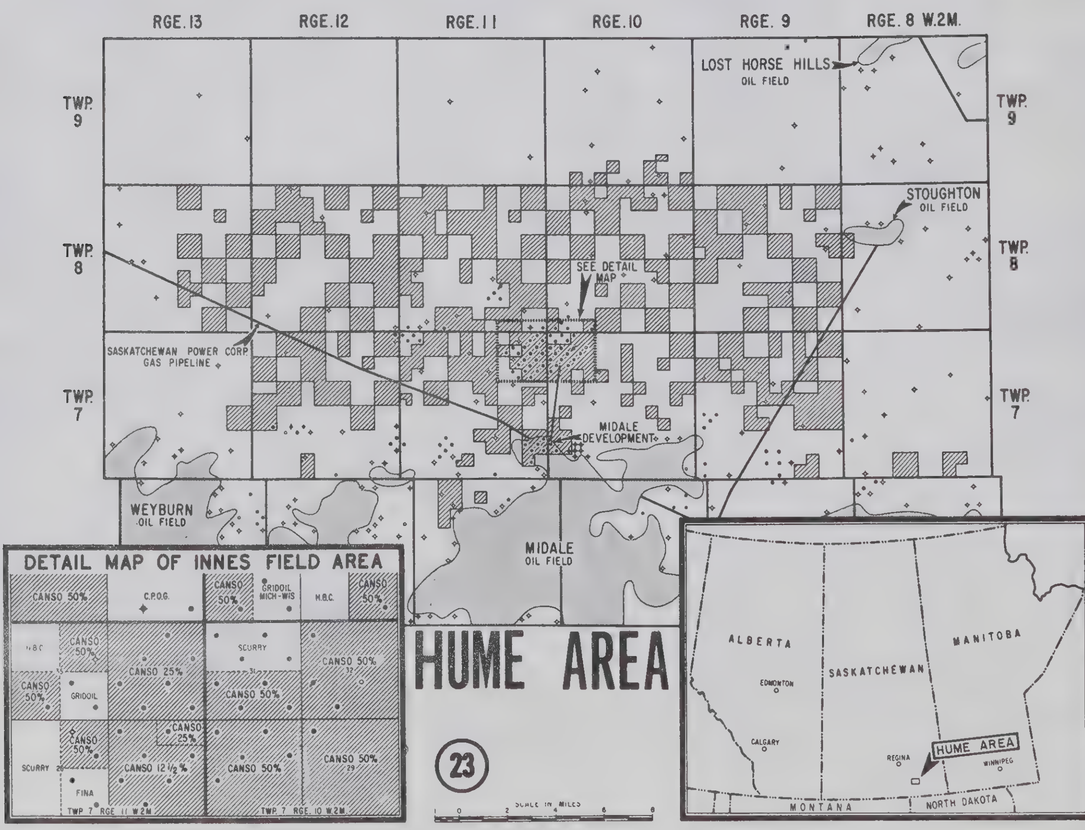
(26)

- Oil Well
- Gas Well
- Suspended
- Abandoned
- Drilling and/or Testing
- Location

UNITED CANSO OIL & GAS LTD. INTERESTS



PARKMAN AREA
WYOMING



HUME AREA

(23)

Waterflooding,* which was commenced in the Smiley-Dewar Field in 1964 has resulted in an increase in gross output to a current rate of 2,200 barrels per day. United Canso's wells in the field have shown good response to flooding, and the Company's share of production, which fell to as low as 500 barrels per day in the first part of 1965, is now up to 700 barrels per day (615 barrels net to the Company's interest).

One new 100% owned well was drilled during 1966 by United Canso on its Willmar lease to offset competitors' wells. This well was successfully completed with a potential of 45 barrels per day.

The Coleville and Hoosier Units in west central Saskatchewan, which supply gas to the Saskatchewan Power Corporation, both showed increases in annual sales during 1966, largely as a result of greater withdrawals during the summer when the purchaser was filling storage. This has resulted in a further improvement in the load factor, which should defer the effect of natural decline in deliverability in these fields.

In both the Elmore and Workman fields negotiations among the working interest owners are now in progress towards the unitization and initiation of waterflooding. United Canso should benefit as should the other interest holders from any additional recoveries and improved operating efficiency which may be generated in these fields.

British Columbia

United Canso held working interests, as at September 30, 1966, in a total of 159 oil wells (7.29 net wells). Production of crude oil to the Company's interest (after royalties) for each of the last five fiscal years and gas-production figures for the same period are shown in Table 3.

The Company also has varying interests in 25 gas wells (0.88 net wells) which include 4 shut in gas wells (.16 net wells) awaiting market. The Company's share of the proceeds from production from carried-interest wells will be applied against its share of exploration, development and carrying costs (amounting to approximately $295,000) which have accrued on the properties.

* Waterflooding — A method of secondary recovery in which water is injected into an oil reservoir for the purpose of accelerating the rate of production, usually accompanied by an increase in the economically recoverable reserves from the reservoir.

TABLE 3
BRITISH COLUMBIA

	Productive Wells Sept. 30 1966		Net Production (after royalties) For Fiscal Year ending September 30				
	Gross	Net	1966	1965	1964	1963	1962
Oil (barrels)							
Boundary Lake Unit	159	7.29	121,578	113,597	140,763	162,886	93,551
Total Oil	159	7.29	121,578	113,597	140,763	162,886	93,551
Natural Gas (Mcf)							
Boundary Lake	4	0.30	19,843	56,273	83,387	95,447	103,760
Buick Creek	12(1)	0.30	49,450	78,797	88,703	76,842	167,200
Doe	1	0.08	—	—	—	—	—
Fort Nelson	5(1)	0.12	68,135	12,378	681	—	—
Other Areas	3(1)	0.08	—	—	—	—	—
Sub-Total	25	0.88	137,428	147,448	172,771	172,289	270,960
Casinghead Gas (Mcf)							
Boundary Lake Unit	—	—	179,965	170,682	43,177	—	—
Total Gas	25	0.88	317,393	318,130	215,948	172,289	270,960

(1) Carried-interest production.

Developments in British Columbia

Production in the Boundary Lake Unit No. 1 continued to show response to waterflooding. Current Unit production rate is about 8,900 barrels per day (about 400 barrels per day net to United Canso) compared with about 8,000 barrels per day in 1965.

Company interest properties were probed by seven wildcats during 1966. Two wells produced gas at 6000 Mcf/d and 800 Mcf/d respectively. Casing has been run in both wells but they have not been fully tested.

Arctic Islands

Under a contract entered into in November 1966, United Canso has agreed to put its wholly-owned interests amounting to 2,783,727 acres and its interest in the 4,030,303 acres of the Dominion Explorers Group properties (480,267 net acres) into a program being planned for the Arctic by a newly-formed company, Panarctic Oils Ltd. If Panarctic is able to complete its arrangements with others on a satisfactory basis, it will be obliged under the contract to spend approximately $30,000,000 in a five-year program which will embrace most of the islands in the Arctic Archipelago. Panarctic will undertake to keep the leases in good standing until 1971, and to drill at least one well on United Canso's wholly-owned interests, and four on the Dominion Explorers Group's holdings, at no cost to the Company. Upon Panarctic's fulfillment of its obligations under the agreement, the Company will thereafter retain a 33⅓ per cent working interest in 1,720,780 acres (convertible to a 25 per cent carried interest or a 4.1666 per cent overriding royalty interest) and a 20 per cent working interest in 1,062,947 acres (convertible to a 15 per cent carried interest or a four per cent overriding royalty interest). The Company will also retain a 2.98 per cent working interest in the Domex properties (4,030,303 gross acres).

North Dakota and Wyoming

A seismic survey on the Parkman area in the west Powder River Basin of Wyoming (110,273 acres, Canso Oil & Gas Inc. 25% interest), commenced in October, 1965, has been concluded and interpretation of data is now proceeding. The Parkman area is located 6 to 36 miles north and east of the Reno area which Shell Oil Company and others are developing.

Australia

Through equity interests in three Australian corporations (United Canso Oil & Gas Co. (N.T.) Pty. Ltd., 40%; Magellan Petroleum (N.T.) Pty. Ltd., 30%; and Magellan Petroleum (Qld.) Pty. Ltd., 20%), the Company holds the following interests in Australia:

Australian Acreage (December 31, 1966)

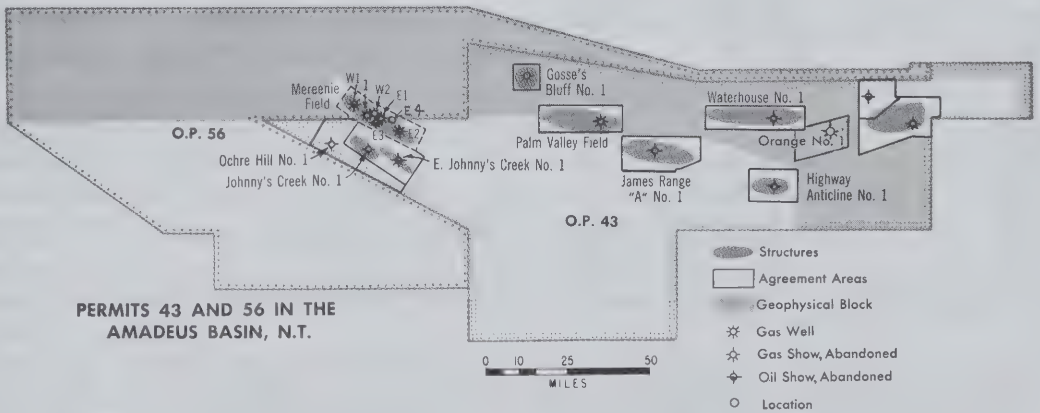
	Gross Acres	Net Acres
Northern Territory	12,693,120	3,942,751
Queensland	9,314,560	1,862,912(1)
	22,007,680	5,805,663(1)

(1) Reduced in January 1967 by 931,456 net acres upon completion by Amoseas of exploration obligations in Queensland.

Under several exploration agreements, Exoil (N.T.) Pty. Ltd. and associates (hereinafter "Exoil") have earned a 50% working interest in 8 acreage blocks of O.P. 43, part of one of which is in O.P.

56, by drilling 9 exploratory wells at their sole expense, and carrying out certain seismic studies. These drilling blocks cover a total of 963,720 acres (see map below). Two of these wells (on the Mereenie structure) were completed as gas wells. The balance encountered minor shows of oil and/or gas, and were abandoned.

Mereenie #1, located in the O.P. 56 portion of the Mereenie block, encountered wet gas in the Stairway and Pacoota formations but, because of mechanical difficulties which seriously endangered the operation, it was necessary to discontinue drilling at a depth of 3,983 feet. During two weeks of testing in January, 1964 Mereenie #1 produced wet gas at the rate of 11 million cubic feet daily, from the Stairway and Pacoota gas sands between the interval 2,760-3,983 feet. The hydrocarbon liquids in the gas could not be measured as adequate separator equipment was not available. Because of the mechanical difficulties, the well was later temporarily abandoned.



Exoil then drilled East Mereenie #1 on the O.P. 43 portion of the Mereenie block. This well was completed in August 1964, as a 4½ mile southeast extension of the gas area. On production tests in August the well produced wet gas at the rate of 30 million cubic feet per day, with an absolute open-flow potential calculated to be approximately 50 million cubic feet daily. Gas production was from an estimated 300 net feet of sandstones in the Pacoota formation encountered from 3,580 feet to the total depth of 4,710 feet.

East Mereenie #2 was drilled to a total depth of 5,175 feet, in September 1964. Cumulative gas flows of approximately 3 million cubic feet daily have been recorded to date on drill stem tests. In addition 55° A.P.I. gravity oil was recovered on drill stem tests of relatively tight Pacoota sandstones encountered between the gas-oil contact at 4,430 feet and the oil-water contact at 4,700 feet, the significance of which must await further drilling at other locations on the structure.

Further drilling at Mereenie has delineated additional gas reserves in the structure, but has failed to establish commercially producible oil, because of lack of sufficient permeability in the oil-bearing standstones encountered to date.

East Mereenie #4 will be drilled at a location designed to penetrate the oil column in porous sands, in the eastern portion of the Mereenie Field, and to test the underlying Cambrian section to a depth of approximately 10,000 feet. Drilling is expected to commence in April 1967.

All Mereenie wells are now shut in as there are no pipelines to the markets for gas at the present time. The wells are approximately 1,300 miles from the most important centers of population and potential markets, and before a significant market can be established for the gas and any oil which might be discovered, the extent of the field or fields has to be determined and suitable arrangements for the construction of pipelines must be made.

Drilling Blocks in Northern Territory, Australia

Area	Permit No.	Exporatory Well Drilled by	Acres in Drilling Block	Company's Net Interest	Results of Drilling
1. Ooraminna	O.P. 43	Exoil	165,000	15%	Dry Hole
2. Alice	O.P. 43	Exoil	66,560	15	Dry Hole
3. Mereenie	O.P. 56	Exoil	64,000	20	Gas discovery
	O.P. 43	Exoil	82,560	15	Gas discovery
4. James Range "A" ..	O.P. 43	Exoil	181,760	15	Dry Hole
5. James Range "C" (Highway)	O.P. 43	Exoil	112,640	15	Dry Hole
6. Gosse's Bluff	O.P. 43	Exoil	10,240	15	Dry Hole
7. Johnny's Creek	O.P. 43	Exoil	134,400	15	Dry Hole
8. Ochre Hill	O.P. 43	Exoil	146,560	15	Dry Hole
Total Exoil ...			963,720		
9. Waterhouse	O.P. 43	Centralia	124,800	16.5	Dry Hole
10. Palm Valley	O.P. 43	(1)	135,680	24.375	Gas discovery
11. Orange	O.P. 43	(2)	76,800	23.5	Suspended

(1) Palm Valley was drilled by Magellan Petroleum (N.T.) Pty. Ltd., Freeport of Australia, Inc. and Farmout Drillers, Inc.

(2) Orange was drilled by Magellan Petroleum (N.T.) Pty. Ltd., Canada Southern Petroleum Ltd., Freeport of Australia, Inc. and Farmout Drillers, Inc.

A second major Ordovician gas discovery was made at Palm Valley on O. P. 43. The discovery well, Palm Valley #1, was completed after reaching a total depth of 6,658 feet in the lower Pacoota. This well, while drilling, tested gas at the rate of 11.7 million cubic feet per day from the Stairway, Horn Valley and Pacoota formations. As a result of damage to the producing zones caused by drilling mud, the absolute open flow potential was reduced and is now calculated at 6.3 million cubic feet per day. Financing of this well and other related exploration was secured through the sale to Freeport of Australia, Inc. (hereinafter "Freeport") for $600,000 of an 18.75% interest in the 135,680 acre block. The Company's equity interest in this block is 24.375%.

In February of 1965, Freeport agreed to pay $1,100,000 for a 1/6th interest in 2,266,880 acres in O.P. 43, and 3,194,880 acres in O.P. 56, in the Missionary Plain area to finance a 2-year seismic survey which was completed in December, 1966. Seven drillable structures have been delineated to date in the O.P. 43 portion of the Missionary Plain area. One of these structures: the Orange anticline, covers approximately 25,000 acres within the closing contours, with approximately 1,000 feet of vertical closure, based on the seismic data. A well which was intended to test the Arumbera formation (of Cambrian age) was suspended, for mechanical reasons, at 8,886 feet, just short of its principal objective, on October 26, 1966. Although non-commercial shows of gas were found in the Chandler formation below 7,300 feet, the primary objective, massive porous sandstones of the Arumbera (Cambrian) formation, was not reached when the operations were suspended because of the above mentioned difficulties. Plans for additional drilling at Orange have not yet been formulated.

Under an agreement with Magellan Petroleum (Qld.) Pty. Ltd., subsidiaries of Standard Oil of California and Texaco, Inc. had undertaken to meet all exploratory obligations on Authority to Prospect 101-P, in Queensland, through the year 1966. To date, they have drilled nine exploratory wells, all abandoned as dry. By December 31, 1966, these companies had earned a 50% interest in 101-P, thereby reducing the Company's equity in the permit to 10%.

OIL AND GAS RESERVES

The proved recoverable reserves in Canada are estimated as of September 30, 1966 to be 4,690,000 barrels of oil which are almost entirely light oil recoverable by primary production methods, 80 billion cubic feet of gas, and 2,256,000 barrels of oil to be recovered by secondary methods now in operation in the Smiley-Dewar and Boundary Lake Fields. The aggregate proved reserves are 6,946,000 barrels of oil and 80 billion cubic feet of gas.

In addition to proved reserves estimated to be recoverable by secondary methods, the Company has made investments in waterflood projects in Canada that were launched last year (North and South Eureka Units). Funds have also been committed for a waterflood project in the Workman field. Waterflood reserves for these three projects referred to above are not classified as "proved" at this time because of insufficient performance history. Also, only a small portion of the reserves thought to be recoverable eventually from the Smiley-Dewar Field has been included in the above figures due to the limited recovery to date by such methods.

In addition natural gas and natural gas liquids have been discovered on Company interest properties in Australia but insufficient drilling has been done to permit reliable reserve estimates to be made and no proven reserves are attributed to Australian properties for purposes of this Prospectus. None of the Australian properties is presently being produced and the Australian wells are approximately 1,300 miles from the most important centers of population.

Engineering studies of the Elmore field have indicated that additional oil will be recovered if a waterflood operation is instituted. Negotiations to form a unit to permit such an operation in this field are under way.

The Company holds carried interests in gas-production acreage in British Columbia. The Company's share of proved reserves assignable to Buick Creek, Fort Nelson and Martin Creek acreage is estimated to be 3 billion cubic feet, included in the above total of 80 billion cubic feet.

All royalty interests have been deducted in arriving at the above estimates of reserves. The reserves were calculated as of September 30, 1966.

MARKETING

Sales of crude oil produced from the properties in which the Company has interests are made on a day-to-day basis at the wells at posted prices in effect in the particular field. The prices at which crude oil is sold are governed by competitive factors, the various purchasers in the area posting the prices at which they will accept deliveries. The major purchasers of crude oil from the Company's producing properties are:

Imperial Oil Limited

Shell Canada Limited

The British American Oil Company Limited

Gas production from the Company's Saskatchewan properties, constituting the major part of the Company's total gas sales, is sold to the Saskatchewan Power Corporation at the wellhead. Production from Alberta properties is sold either via The Alberta Gas Trunk Line Company Limited to Trans-Canada Pipe Lines Limited or at the wellhead to Canadian-Montana Gas Company Limited for export to the United States. All gas sales are subject to long-term contracts, which provide for price escalation, and current prices range from 10¢ to 17¢ per thousand cubic feet of gas.

MANAGEMENT

Name	Office
John T. Sinclair, Jr.	President and Director
James L. Buckley	Vice President and Director
R. J. Richardson	General Manager, Vice President, Treasurer and Director
Wm. Shields, Jr.	Secretary and Director
John M. Godfrey	Director
Benjamin W. Heath	Director
Cyril K. Kempston	Director

The following paragraphs indicate the principal occupations for the past five years of executive officers and directors of the Company.

Mr. James L. Buckley of Sharon, Connecticut is a member of the Connecticut Bar. He is the President and director of Pancoastal Petroleum Limited; Vice President and a director of The Catawba Corporation and of Pantepec International Petroleum, Ltd.; and a director of Magellan Petroleum Corporation. As at December 31, 1966 he held 5,700 shares of capital stock of the Company and was a 10% beneficiary of two trusts which held 141,275 shares. His children are the beneficiaries of a trust holding 5,400 shares.

Mr. John M. Godfrey is a member of the law firm of Campbell, Godfrey & Lewtas which firm has served as Canadian counsel to the Company since its inception.

Mr. Benjamin W. Heath is President and a director of Magellan Petroleum Corporation and Coastal Caribbean Oils & Minerals, Ltd., a director of Canada Southern Petroleum Ltd., and a Vice President of The Catawba Corporation. As at December 31, 1966 he held 3,000 shares of capital stock of the Company and his family is a 10% beneficiary of two trusts which held 141,275 shares.

Mr. Cyril K. Kempston has been associated with the Company since its formation.

Mr. Roland J. Richardson has served as Vice President of the Company since its formation and as General Manager since 1957. He is also Vice President and Controller of Canada Southern Petroleum Ltd.

Mr. William Shields, Jr. is a member of the law firm of Coudert Brothers which firm has acted as U. S. counsel for the Company since its inception. He is a director of Tiffany & Co., New York Airways, Coastal Caribbean Oils & Minerals, Ltd., Pantepec International Petroleum, Ltd. and a director and secretary of Magellan Petroleum Corporation.

Mr. John T. Sinclair has served as President and a director of the Company since its formation. He is also a director of Pancoastal Petroleum Limited and Pantepec International Petroleum, Ltd. (of which he is a Vice-President). As at December 31, 1966 he held 32,500 shares of capital stock of the Company.

THE CATAWBA CORPORATION

In order to avail itself of the services of qualified technical and administrative personnel, the Company, pursuant to the authorization of its Board of Directors, has retained the services of The Catawba Corporation. Catawba was organized in April of 1948 for the purpose of rendering financial, technical and other services to corporations primarily engaged in the exploration for, and the production of, petroleum in foreign countries. It maintains offices in New York, N. Y., Sharon and Hartford, Connecticut. It employs 10 professional and administrative personnel on its staff. It also maintains a close liaison with drilling, geological, geophysical and petroleum consulting firms. All of the outstanding voting stock of Catawba is held by the family of the late William F. Buckley. Mr. James L. Buckley and Mr. Benjamin W. Heath and family each own 10% of the outstanding stock of The Catawba Corporation.

The Catawba Corporation maintains cognizance of conditions under which the Company operates, particular attention being paid to its obligations with respect to operating associates, personnel requirements, security holders, financing organizations and foreign and domestic governmental regulatory bodies and political representatives. Catawba handles, on behalf of the Company, such public relations as may be required and assists the Company in the acquisition, exploration and operation of its properties and the establishment of offices.

Catawba is reimbursed for services rendered on a time devoted basis under a five-year contract dated April 20, 1964. The Catawba Corporation has arrangements similar to that outlined above with the corporations which appear on the chart on page 11, from which group substantially all of Catawba's revenues are derived.

EMPLOYEES AND OFFICES

The Company and its subsidiary employ approximately 54 persons. Of this number approximately 16 employees are also employed by Canada Southern Petroleum Ltd. The compensation paid to such joint employees is allocated between the two companies on the basis of the time devoted by each such employee to the affairs of the respective corporations. The Company maintains offices in the Canada Southern Building, Calgary, Alberta for which it pays an annual rental amounting to $32,400.

OWNERSHIP OF SECURITIES

No person owns of record more than 10% of the outstanding shares of the capital stock of the Company and the Company knows of no person who owns beneficially more than 10% of such securities. The following table sets forth information with respect to the outstanding capital stock of the Company beneficially owned by all officers and directors of the Company as a group as of February 28, 1967.

Title of Class	Amount Beneficially Owned	Percent of Ownership
Capital Stock of the Par Value of $1 per share	60,016*	1.336

* Additionally, one Director and the family of another Director each are 10% beneficiaries of two trusts which hold a total of 141,275 shares of the Company. Additionally the children of the former are the beneficiaries of a trust which holds 5,400 shares of the Company.

The information set forth above is based, as to record owner of securities, upon the records of the transfer agent for the capital stock of the Company and as to the beneficial ownership of securities, upon statements furnished to the Company by the security holders indicated.

REMUNERATION OF DIRECTORS AND OFFICERS

The only director or officer of the Company with aggregate direct remuneration in excess of $30,000 during the Company's last fiscal year which ended Setpember 30, 1966, was J. T. Sinclair, Jr. His remuneration together with that of all other persons as a group who were directors or officers of the registrant at any time during the fiscal year was as follows:

Name of individual or group	Capacities in which remuneration was received	Aggregate remuneration
J. T. Sinclair, Jr.	President	$37,730
Directors and officers as a group	As officers and employees	$72,029

The following table sets forth the amounts contributed to a contributory pension plan on behalf of John T. Sinclair, Jr.:

Name of individual	Amounts set aside or accrued during registrant's last fiscal year	Estimated annual benefits upon retirement
J. T. Sinclair, Jr.	$2,229	$8,999

The above sum was contributed on behalf of the Company to a contributory pension plan which is in effect for all elected officers or employees and is administered by an insurance company. Employees contribute 5% of their salaries and the Company contributes the remainder of the premium. Total contributions to date on behalf of Mr. Sinclair amounted to $25,237.

No director or officer other than Mr. J. T. Sinclair, Jr. has received aggregate direct or indirect remuneration in excess of $30,000 per annum in any of the last three years.

DESCRIPTION OF CAPITAL STOCK

The following is a brief description of the capital stock of the Company:

Dividend Rights

The holders of capital stock are entitled to receive dividends out of funds legally available therefor, when and as declared by the Board of Directors. Each share of capital stock outstanding is entitled to share equally with every other share of capital stock in every such distribution.

Voting Rights

By-Law No. 6 adopted by the shareholders of the Company on March 24, 1964 provides that no single owner of shares, whether individual, trustee, beneficial owner, corporation, partnership, association, or similar entity or group; or any officers, directors, members or employees of any of the foregoing shall have the right to vote or give instructions as to the voting of more than 1,000 shares of the capital stock of the Company. The effect of this By-Law is that under normal circumstances whether a proposition is approved or not at a meeting of shareholders will depend upon the votes of the majority of shareholders rather than upon the votes of a small minority of shareholders each of whom owns large blocks of shares. By-Law No. 6 ensures among other things that any "take-over" offers for the Company would be made openly to the Company or to all the shareholders, rather than to the owners of large blocks of stock in undisclosed transactions.

The validity of By-Law No. 6 was attacked in a minority stockholders suit in the Supreme Court in the Province of Alberta on the same date that it was adopted. At that time the Company agreed with the American Stock Exchange that if the validity of the By-Law was upheld it was understood that continued listing of the shares of stock of the Company on the American Stock Exchange would be dependent upon appropriate action being taken by the Company to rescind the By-Law.

The suit attacking the validity of the By-Law has now been withdrawn without a final judicial determination as to its validity. The Company has now agreed that the American Stock Exchange may withdraw the listing of its Capital Stock if at a meeting of shareholders voting is restricted as provided in By-Law No. 6. To meet this agreement the Company proposed to count the votes cast

(a) on the basis of one vote per share and to determine if the requisite vote for passage of each matter to be voted upon at meetings has been obtained on such basis, and also (b) on the basis of the 1,000 share restriction as provided in By-Law No. 6 which presently governs its corporate proceedings.

The Company will not consider any proposition voted upon as approved unless it receives the requisite number of votes under both methods (a) and (b), and will furnish the Exchange after the Meeting with a tally of the number of votes cast under both methods.

The Company has further agreed that (1) if the requisite vote is not obtained on basis (a) but is obtained on basis (b) or if the requisite vote is obtained on basis (a) but is not obtained on basis (b), or (2) if action is not taken by the Company either prior to or at the 1968 Annual General Meeting to rescind By-Law No. 6, then in any of the foregoing contingencies the American Stock Exchange may thereupon withdraw the listing of the Company's capital stock.

Liquidation Rights

Subject to the rights of creditors, all rights to the assets of the Company available for distribution upon liquidation are vested in the holders of capital stock and each share is entitled to participate equally with every other share.

Pre-emptive Rights, Conversion Rights, Redemption Provisions, etc.

The holders of capital stock have no pre-emptive rights. There are no conversion rights attached to the capital stock and there are no provisions for sinking funds or redemption of shares. The holders of outstanding capital stock are not liable to any further calls or assessments by the Company. There are no restrictions on the repurchase or redemption of shares by the Company.

Federal Interest Equalization Tax

The acquisition by United States persons of shares offered hereby will be excluded from the Interest Equalization Tax pursuant to Section 4920(b)(2)(D) of the Interest Equalization Tax Act.

LEGAL OPINIONS

Legal matters in connection with this offering will be passed upon for the Company by Messrs. Coudert Brothers, 200 Park Avenue, New York, New York 10017. All matters relating to Canadian law affecting the Company, including the legality of the shares of capital stock of the Company covered by this Prospectus, will be passed upon by Messrs. Campbell, Godfrey & Lewtas of 80 King Street West, Toronto, Ontario, Canada. Messrs. Coudert Brothers may rely, insofar as Canadian law is concerned, on the opinion of said Canadian firm. Messrs. William Shields, Jr. and John M. Godfrey, are respectively partners of Coudert Brothers and Campbell, Godfrey & Lewtas, which firms have rendered legal services to the Company since its inception.

EXPERTS

The financial statements and the schedules of United Canso Oil & Gas Ltd. at September 30, 1966 and for the five years then ended, appearing in this Prospectus and Registration Statement have been examined by Messrs. Arthur Young, Clarkson, Gordon & Co., independent public accountants, as set forth in their reports appearing elsewhere herein, and are included in reliance upon such reports and upon the authority of said firm as experts.

ADDITIONAL INFORMATION

The Company has filed with the Securities and Exchange Commission, Washington, D. C. 20549, a Registration Statement under the Securities Act of 1933, as amended, with respect to the Shares covered by this Prospectus. This Prospectus does not contain all the information set forth in the Registration Statement, certain portions of which are omitted in accordance with the rules and regulations of the Commission. The information so omitted may be obtained from the Commission's principal office at Washington, D. C. 20549 upon payment of the fees prescribed by the Commission.

AUDITORS' REPORT

The Board of Directors
United Canso Oil & Gas Ltd.

We have examined the accompanying consolidated balance sheet of United Canso Oil & Gas Ltd. and subsidiary at September 30, 1966 and the related consolidated statement of loss (income) and accumulated deficit for the five years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to such adjustment as would result from failure to realize in the future the amounts at which investments in and advances to the Australian companies and nonproducing property and equipment are carried in the consolidated balance sheet (see Note 1), the statements mentioned above present fairly the consolidated financial position of United Canso Oil & Gas Ltd. and subsidiary at September 30, 1966 and the consolidated results of their operations for the five years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG, CLARKSON, GORDON & CO.

New York, N. Y.
November 7, 1966

UNITED CANSO OIL & GAS LTD.
(A Canadian corporation)

CONSOLIDATED BALANCE SHEET

(Expressed in Canadian dollars)

ASSETS

	September 30, 1966	December 31, 1966 (Unaudited)
Current assets:		
Cash	$ 208,539	$ 376,548
Bank deposit receipt and accrued interest	200,107	200,000
Accounts receivable (Note 3)	418,159	482,904
Refundable deposits	31,541	32,728
Prepaid expenses and other assets	50,638	30,696
Total current assets	908,984	1,122,876
Investments and advances:		
Australian companies (Note 2):		
United Canso Oil & Gas Co. (N.T.) Pty. Ltd., 40% of capital stock at cost ($298,074) and advances	531,172	531,172
Magellan Petroleum (N.T.) Pty. Ltd., 30% of capital stock at cost ($345,124) and advances	584,963	584,963
Magellan Petroleum (Qld.) Pty. Ltd., 20% of capital stock at cost ($538,402) and advances	545,349	548,436
	1,661,484	1,664,571
Smiley Gas Conservation Limited, 26% of capital stock at cost ($260) and 5% demand notes	78,260	72,410
Property and equipment (Note 3):		
Oil and gas interests, at cost or less:		
Producing (less depletion $2,920,950 and $2,970,404, respectively)	2,133,451	2,083,997
Nonproducing:		
Canada	1,842,302	1,993,379
Venezuela	260,477	260,477
United States	74,182	82,537
	2,176,961	2,336,393
Well costs and gathering systems, at cost:		
Producing (less depreciation and amortization $3,798,070 and $3,930,587, respectively)	3,192,240	3,214,365
Standing (not presently producing)	276,311	264,523
Land, buildings and equipment, at cost (less depreciation $189,841 and $190,066, respectively)	40,198	42,488
	7,819,161	7,941,766
	$10,467,889	$10,801,623

See accompanying notes.

UNITED CANSO OIL & GAS LTD.

(A Canadian corporation)

CONSOLIDATED BALANCE SHEET

(Expressed in Canadian dollars)

LIABILITIES AND CAPITAL

	September 30, 1966	December 31, 1966 (Unaudited)
Current liabilities:		
Demand bank loan payable (Note 3)	$ 267,373	$ 378,153
Accounts payable:		
Trade	185,064	346,946
Magellan Petroleum Corporation	71,294	3,088
The Catawba Corporation (Note 4)	24,178	35,726
Total current liabilities	547,909	763,913
Capital (Note 5):		
Capital stock, par value $1 per share:		
Authorized — 6,000,000 shares		
Outstanding — 4,492,311 shares	4,492,311	4,492,311
Capital in excess of par value	12,846,370	12,837,801
Accumulated deficit	(7,418,701)	(7,292,402)
	9,919,980	10,037,710
Commitments (Note 3)		
	$10,467,889	$10,801,623

On behalf of the Board:

JOHN T. SINCLAIR, *Director*

ROLAND J. RICHARDSON, *Director*

See accompanying notes.

UNITED CANSO OIL & GAS LTD.

NOTES TO FINANCIAL STATEMENTS

1. Basis of the financial statements

The accompanying consolidated financial statements include the accounts of United Canso Oil & Gas Ltd. (United Canso) and its wholly-owned U. S. subsidiary, Canso Oil & Gas, Inc. (Canso Oil & Gas), hereafter referred to collectively as the Company. The accounts of Canso Oil & Gas have been translated at the rate of $1 U. S. = $1.0776 Can. at September 30, 1966 and $1 U. S. = $1.0834 at December 31, 1966. Unrealized gain or loss from translation, which is not significant, has been credited or charged to other expenses. The excess of United Canso's investment over its equity in net assets of Canso Oil & Gas ($133,345 at September 30, 1966 and $148,129 at December 31, 1966), representing net loss since inception, has been included in accumulated deficit in the accompanying consolidated financial statements.

During the year ended September 30, 1965, United Canso acquired certain nonproducing leases and other assets from its then wholly-owned U. S. subsidiary United Western Oil & Gas Company (United Western). These assets were then transferred to Canso Oil & Gas, Inc., a new wholly-owned U. S. subsidiary. Subsequently, United Canso sold its 100% capital stock interest in United Western, realizing a gain of $580,808.

Realization of the investments in and advances to the Australian companies (see Note 2) and of the investment in nonproducing property and equipment is dependent upon future developments, since the property interests, represented by these assets, are substantially unexplored or have not been developed.

2. Investments and advances — Australian companies

United Canso acquired a substantial portion of its interest in the Australian companies from Magellan Petroleum Corporation (Magellan) in September 1963. A substantial portion of the remaining interest in the Australian companies is held by Magellan and Pantepec International Petroleum, Ltd.

United Canso's equity in the combined net assets (adjusted to cost) of the Australian companies was approximately $600,000 (United Canso Oil & Gas Co. (N.T.) Pty. Ltd.—$200,000; Magellan Petroleum (N.T.) Pty. Ltd.—$305,000 and Magellan Petroleum (Qld.) Pty. Ltd.—$95,000) as compared to United Canso's investment of $1,181,600 in the capital stock of such companies at September 30 and December 31, 1966. The net assets of the Australian companies consist primarily of deferred drilling, geological, geophysical and administrative costs.

The Australian companies have entered into agreements with various oil companies covering exploration of certain property interests held. Under these agreements the various oil companies have earned or may earn up to a 50% working interest in such property interests.

During the year ended September 30, 1965, certain of the Australian companies transferred approximately one-sixth of their working interests in portions of two permits to Freeport of Australia, Incorporated for a total consideration of $1,700,000 U. S. Such amount was applied by the Australian companies as a reduction of their permit and concession carrying values.

3. Property and equipment

In 1954 United Canso and Canada Southern Petroleum Ltd. (Canada Southern) each acquired a 50% share ownership of Act Oils Limited (Act Oils). United Canso, Canada Southern and Act Oils entered into agreements dated October and November 1965 as described on page 12 of this Prospectus.

United Canso's interest in Venezuela was acquired from Pancoastal Petroleum Limited (Pancoastal) in 1961 and consisted of a one-half carried interest in Pancoastal's 50% undivided interest in a nonproducing concession. During 1964, a well was drilled on this concession at Pancoastal's expense, resulting in the discovery of a field of low-gravity oil. Effective January 1, 1966, as a result of an agreement with Texas Petroleum Company (Texpet), United Canso's interest in Venezuela was exchanged for a cash payment of $53,797, a 50% interest in a sliding-scale royalty ranging

from 3¢ to 8¢ per barrel on 50% of the gross production from the concession in excess of 5,000 barrels per day and the undertaking by Texpet to drill a minimum of three exploratory wells on the concession before April 1, 1967. During the first quarter of 1967 Texpet drilled the required three wells, all of which resulted in dry holes.

Depletion is computed by the unit of production method applied to the amounts assigned to the producing portion of interests retained in each original permit area. Depreciation of well equipment and amortization of intangible drilling costs are computed by the unit of production method based on estimated reserves available to all existing wells in each field. Depreciation of buildings and equipment is provided at rates based on the estimated useful lives of the various classes of assets. The net cost of abandoned wells, which had previously been producing, is charged against the accumulated depreciation and amortization account of the remaining wells in the producing area.

Lease rentals and drilling commitments in connection with properties held by the Company at September 30, 1966 approximate $345,000 for the year ending September 30, 1967.

In connection with the demand bank loan payable United Canso has made a general assignment of certain accounts receivable and a specific assignment of production proceeds from certain properties.

4. The Catawba Corporation

The amounts shown in the consolidated statement of loss (income) and accumulated deficit for financial, technical and other services under contract represent charges from The Catawba Corporation (Catawba). United Canso's current (expiring June 1969) and prior contracts with Catawba have provided for payments based on services rendered and the granting of a 1/64th overriding royalty on all properties acquired by United Canso during the term of the contract. The contracts also have provided for special compensation for services rendered not contemplated under the contracts. Catawba provides similar services to the Australian companies, Magellan Petroleum Corporation, Pantepec International Petroleum, Ltd., Pancoastal Petroleum Limited and Canada Southern Petroleum Ltd. Certain of the stockholders, officers and employees of Catawba are directors, officers and/or stockholders of United Canso and the other companies mentioned above. In addition, Magellan Petroleum Corporation and Canada Southern Petroleum Ltd. are stockholders of United Canso.

5. Capital and stock options and reservations

An option for 100,000 shares ($2.50 per share) granted to Catawba in 1959 expired on April 20, 1964. During the year ended September 30, 1964 options, granted to officers and employees in 1960 and 1961, for 9,500 shares were exercised. The option price was $14,250 ($1.50 per share) and the aggregate market value at date of exercise was $21,020. During the year ended September 30, 1965 options, granted to officers and employees in 1960 and 1961, for 105,500 shares were exercised. The option price was $158,250 ($1.50 per share) and the aggregate market value at dates of exercise was $321,600. Of the proceeds received upon exercise of the options, the par value of the shares issued ($115,000) was added to capital stock and the balance ($57,500) was added to capital in excess of par value. At September 30 and December 31, 1966 there were no options outstanding and 10,000 shares reserved for future grants of options.

During the three years and three months ended December 31, 1966 there were no other changes in shares under option, capital stock or capital in excess of par value except during the three months ended December 31, 1966 expenses of $8,569 relating to this financing were deducted from capital in excess of par value.

6. Allocated expenses and directors' compensation

Certain employees and office facilities are shared with Canada Southern Petroleum Ltd. and certain of the general and administrative expenses represent allocated portions of common expenses. Compensation of directors allocated to United Canso amounted to $20,130, $38,581 and $72,029 for the three years ended September 30, 1964, 1965 and 1966, respectively. Contributions to a pension plan on behalf of the directors allocated to United Canso amounted to $1,649, $3,146 and $5,258 for the three years ended September 30, 1964, 1965 and 1966, respectively.

7. **Supplementary profit and loss information**

	Year ended September 30,			Three months ended December 31,	
	1964	1965	1966	1965	1966
				(Unaudited)	
Maintenance and repairs, charged to lease operating expenses	$ 22,672	$ 17,183	$ 39,158	$ 6,969	$ 7,713
Depletion of producing properties	$220,745	$179,880	$204,367	$ 50,745	$ 49,454
Depreciation of fixed assets	$168,147	$168,887	$269,111	$ 45,384	$ 67,711
Amortization of intangible drilling costs	$209,146	$219,642	$273,618	$ 63,234	$ 68,404
Property and other taxes:					
Charged to lease operating expenses	$ 15,575	$ 21,847	$ 20,602	$ 2,024	$ 5,530
Charged to general and administrative expenses	513	5	127	—	27
	$ 16,088	$ 21,852	$ 20,729	$ 2,024	$ 5,557
Payments to The Catawba Corporation in consideration for financial, technical and other services under contract	$221,969	$240,912	$212,721	$ 37,062	$ 37,736
Rents and royalties:					
Rents:					
Lease and permit rentals	$118,938	$149,155	$167,912	$ 23,583	$ 26,480
Charged to lease operating expenses	62,331	58,383	70,871	17,440	19,334
Charged to general and administrative expenses	34,296	33,142	38,955	8,878	8,878
	$215,565	$240,680	$277,738	$ 49,901	$ 54,692
Royalties (deducted from oil and gas sales)	$225,424	$337,701	$461,782	$110,038	$121,759

Printed in U.S.A.

UNITED CANSO OIL & GAS LTD.

ANNUAL REPORT

1967

1967 ANNUAL REPORT

UNITED CANSO OIL & GAS LTD.

DIRECTORS

James L. Buckley
John M. Godfrey
Benjamin W. Heath
Cyril K. Kempston
Roland J. Richardson
William Shields, Jr.
John T. Sinclair, Jr.

OFFICERS

John T. Sinclair, Jr.
President

James L. Buckley
Vice President

Roland J. Richardson
Vice President,
General Manager & Treasurer

William Shields, Jr.
Secretary

K. Ross Jordan
Assistant Secretary &
Assistant Treasurer

B. D. Patterson
Assistant Secretary

AUDITORS

Arthur Young, Clarkson, Gordon & Co.

Securities transferred *in the United States by The First National Bank of Jersey City, One Exchange Place, Jersey City, N. J. 07303*

Inquiries or requests for additional information concerning United Canso Oil & Gas Ltd. should be addressed to the Company, c/o The First National Bank of Jersey City, One Exchange Place, Jersey City, N. J. 07303, or to 940 Eighth Avenue South West, Calgary, Alberta, Canada.

UNITED CANSO OIL & GAS LTD.

Annual Report for the Year Ended September 30, 1967

A FIVE-YEAR SUMMARY

	1966-67	*1965-66*	*1964-65*	*1963-64*	*1962-63*
CORPORATE					
Number of shareholders (estimated)	15,400	15,400	15,000	14,600	15,500
Shares authorized	8,000,000	6,000,000	6,000,000	6,000,000	6,000,000
Shares outstanding	5,293,843	4,492,311	4,492,311	4,386,811	4,377,311
FINANCIAL					
Gross revenue after royalties	$ 2,644,000	$ 2,504,000	$ 2,168,000	$ 2,160,000	$ 2,187,000
Operating income before depletion, depreciation and amortization, write-offs and non-recurring items	988,000	1,104,000	775,000	703,000	918,000
Net income (loss)	(45,000)	63,000	(140,000)	(411,000)	(180,000)
Working capital at year-end	2,063,000	361,000	1,084,000	714,000	1,443,000
OPERATIONS					
Oil wells (net)	82.46	85.22	81.49	104.20	114.10
Oil production (before royalties) — barrels	986,024	919,151	734,596	756,401	741,179
Gas wells (net)	29.91	31.95	29.55	25.28	25.00
Gas production (before royalties) — thousand cubic feet	6,659,693	7,163,454	7,043,171	6,321,257	6,662,646
Gross acreage (including carried interest)	31,218,624	30,624,088	31,446,028	32,949,951	33,104,593
Net acreage (including carried interest)	9,260,219	9,419,049	9,531,927	10,282,572	8,169,885

NOTES:

1. In January, 1965, the Company sold its investment in United States producing properties. These included 23.16 net oil wells producing at an approximate rate of 240 barrels per day.

2. Gas production includes casinghead and field plant gas.

PRESIDENT'S LETTER

To the Shareholders:

Thanks to a successful rights offering and to a further rise in oil production, United Canso finds itself in a strong financial position. With over $2,000,000 of working capital on hand, a good cash flow from operations, no debt, and with a substantial line of credit with its bankers, the Company is well able to proceed with its development work and to pursue the ambitious long-term exploration program on which it has embarked.

Over the course of the next six months, United Canso will participate in at least 16 exploratory wells, of which eight will represent tests of significant Devonian prospects in the Bistcho Lake-Caribou areas of northwestern Alberta, where the Company has built up a substantial land portfolio. As previously announced, the Company expects to invest $400,000 to $500,000 annually over the next several years in a search for the prolific reserves of the Rainbow Lake type which have been discovered in the Devonian reef formations in northern Alberta and adjacent areas. It will be able also to continue with exploration work elsewhere in Canada, as well as in Australia and the United States.

This stepped-up program, with its emphasis on the use of seismic data, has resulted in a net loss for the year of $45,413. As pointed out in the previous Annual Report, such deficits may be anticipated for companies such as yours which must continue to place their main emphasis on exploration. It is important for shareholders to keep in mind that so long as their Company is able to increase its base of production and find reserves faster than they are being depleted, it is moving in the right direction.

Gross and net interests in oil, gas and mineral rights have on balance remained approximately the same over the past year. The Company has been able to strengthen its land positions in northwestern Alberta and in the Parkman area of Wyoming. In Australia, a substantial decrease in holdings of oil and gas rights in Queensland was largely offset by the acquisition of mineral rights in the Northern Territory where the Company has interests in significant reserves of oil and natural gas. Should the program of mineral exploration now being launched in Australia meet with success, the Company stands to gain in two ways: first, because of its interest in any ores produced; and second, because large-scale mining operations could provide an important market for its Australian oil and gas.

It goes without saying that United Canso's ability to survive and grow in the highly competitive oil industry is due in large measure to the competence of its staff and advisors. To these, and to all who have contributed to the Company's progress over the past year, we wish to express our great appreciation.

On behalf of the Board of Directors,

John T. Sinclair, Jr.

JOHN T. SINCLAIR, JR., *President*

Calgary, Alberta
November 14, 1967

REVIEW OF OPERATIONS

FINANCIAL

United Canso and its United States subsidiary, Canso Oil & Gas, Inc., recorded a net loss from operations of $45,413 for the year ended September 30, 1967. This loss resulted in substantial part from the Company's conservative policy of charging all seismic costs (which have increased materially over the prior year) to expense rather than capitalizing them as original property costs.

Expenditures of over $1,000,000 have been made during the past 12 months to evaluate lands presently held, and to assess prospects for further acquisitions in areas of northern Alberta and the Northwest Territories where particular interest has been focused as a result of the Rainbow Lake and other Devonian discoveries.

Revenues

Gross income for the year reached an all-time high of $2,643,976, principally due to increased oil sales from the Smiley-Dewar and Boundary Lake fields which have resulted from waterflooding, and to new production developed in the Innes area. Improved oil revenues were partially offset by lower gas income due principally to declining sales from the Hoosier Gas Unit. Royalty income increased to $42,957. Interest and miscellaneous income in the amount of $37,094 was realized primarily on short-term investments at favorable interest rates.

Operating Costs

Operating costs and expenses totaled $2,689,389, a substantial increase over the previous year's $2,440,872. These are detailed in the financial statements which accompany this Report.

The increases in categories such as lease operating costs, lease rentals, and especially geological and geophysical expenses, reflect the expanding scope of the Company's operations. General and administrative expenses rose by $77,051, chiefly as the result of increased salary and wage costs, reduction of overhead recoverable from others, and increased capital stock expense primarily attributable to the rights offering referred to below.

Working Capital

Through its successful rights offering to shareholders (85% of such rights having been exercised) and subsequent sales of some of the shares which were not subscribed to, the Company has raised more than $1,700,000 of working capital. A $267,373 bank loan has been retired, leaving the Company without funded debt and in a strong financial position to pursue its long-term exploration and development objectives. Funds not currently needed are invested in short-term bank deposit receipts, as shown in the financial statements.

PRODUCTION AND DEVELOPMENT

OIL

United Canso's oil production exceeded the 3,000 barrel per day mark during August, the highest production rate yet attained by the Company. The year's total production of 986,024 barrels, also a new record, represented an increase of 7.28% over that of the previous year. The increase is attributable to good response to waterflooding in the Smiley-Dewar and Boundary Lake fields, and to further extensions of the Innes field. Development drilling resulted in the completion of seven additional oil wells (2.05 net). A comparison of the year's production with that of previous

FIVE-YEAR SUMMARY OF PRODUCTION

	Productive Wells Sept. 30, 1967		Net Production (before Royalties) for Fiscal Year Ended September 30				
			1967	*1966*	*1965*	*1964*	*1963*
OIL	*Gross*	*Net*	*Oil (Barrels)*				
Canada							
Alberta	331	7.73	65,154	66,432	79,649	87,748	86,053
British Columbia	134	6.15	150,518	140,195	130,190	163,881	191,703
Saskatchewan	209	68.43	770,352	712,524	501,118	420,328	400,908
TOTAL CANADA	674	82.31	986,024	919,151	710,957	671,957	678,664
Australia	1	.15	—	—	—	—	—
United States (2)	—	—	—	—	23,639	84,444	62,515
TOTAL OIL	675	82.46	986,024	919,151	734,596	756,401	741,179
GAS			*Gas (Thousand Cubic Feet)(1)*				
Canada							
Alberta	45	10.39	1,891,459	2,064,325	2,034,744	1,785,427	1,959,541
British Columbia	10	.26	449,106	290,916	332,386	255,874	220,860
Saskatchewan	48	18.32	4,319,128	4,808,213	4,670,432	4,252,455	4,453,901
TOTAL CANADA	103	28.97	6,659,693	7,163,454	7,037,562	6,293,756	6,634,302
Australia	5	.94	—	—	—	—	—
United States (2)	—	—	—	—	5,609	27,501	28,344
TOTAL GAS	108	29.91	6,659,693	7,163,454	7,043,171	6,321,257	6,662,646

(1) Includes casinghead and field plant gas.

(2) Producing properties in the United States sold in January, 1965.

years is shown in the summary on Page 4. The results of development in individual fields were as follows:

Boundary Lake (204,873 gross acres, 21,881 net)

Production in the 134-well Boundary Lake Unit No. 1 showed further increases with growing response to waterflooding. The current unit output is 9,400 barrels per day (b.p.d.) compared to 8,900 b.p.d. a year ago. United Canso's share of this production is about 425 b.p.d. The good performance of the waterflood, which was developed on a wide spacing pattern, should yield substantial revenue to United Canso for many years to come.

Innes-Hume (81,336 gross acres, 43,892 net)

Additional development drilling in the Innes field has brought total field wells to 47 including a water disposal well. During the year, United Canso participated in five tests in the area. Four 50%-owned oil wells were completed successfully, and a fifth wholly-owned test having an insufficient pay zone was abandoned.

Discussions are in progress regarding unitization of the field. A cooperative program of production testing was conducted this past summer in connection with these plans, and it is expected that unitization will be effected within a year. It is anticipated that unitization will result in an increase in field output and a reduction of over-all operating expense.

The Company's share of current production from Innes is approximately 780 b.p.d. from 32 wells (11.75 net).

Step-out drilling up to eight miles west of the Innes field is delineating a pool separate from Innes but with generally less prolific pay zones. Economics have been improved in the western part of this area through adoption of 160-acre instead of 80-acre spacing for development wells. United Canso has a royalty on one completed oil well, and a 25% working interest participation in two others drilled during the year. The Company's present production is about 35 b.p.d. in this area, and it is participating in further drilling which is now in progress.

Midale Unit (30,560 gross acres, 114.8 net)

Five of the Midale wells in which United Canso has an interest were incorporated into a unit effective September 1, 1967. One of these wells will be converted to water injection. It is hoped that at least one more of the Company-interest wells in this area will be admitted to the unit the next time it is enlarged. Waterflooding under unitized operations is expected to result in a substantially increased recovery of oil.

North Eureka and South Eureka (6,360 gross acres, 909 net)

The first response to waterflooding has been reported from both units as injection approaches the point of fill-up (i.e., when voidage caused by past production is filled with injected water). As injection continues, response will increase. Current production from the two units for United Canso's account is 140 b.p.d. United Canso is the operator for the North Eureka Unit.

Smiley-Dewar (6,778.5 gross acres, 4,058 net)

Production from United Canso's leases in the Smiley-Dewar field increased further during the past year with spreading response to waterflooding. Current total field output is higher than the peak production rate from natural depletion 12 years ago when the field was first developed. United Canso's current share is approximately 900 b.p.d. compared to the low of 500 b.p.d. in 1965 and 700 b.p.d. a year ago.

Elmore-Workman (2,240 gross acres, 300.33 net)

Unitization of the Workman field was accomplished during the year, and waterflooding has been initiated. United Canso has a 1.64% interest in the unit. Increased recovery and more profitable operation should result from this development.

GAS

United Canso's average daily gas output for the year was 18.25 million cubic feet. Total sales were 6.66 billion cubic feet, down 7.55% from the previous year, largely as a result of natural decline in the output of the Hoosier Unit. The Pakowki Lake field, which has hitherto enjoyed above-average withdrawal rates, was cut back with the introduction of new sources to the over-all Canadian-Montana Power Corporation System. The Company's other gas properties continued to produce satisfactorily under their various sales contracts.

EXPLORATION

CANADA

Bistcho Lake (151,520 gross acres, 18,007 net)

At least five and possibly seven exploratory tests are scheduled to be drilled this winter on Company-interest lands in this highly active area. While four exploratory wells have been drilled and abandoned (three at no cost to United Canso) in the northwestern portion of the Company's Bistcho Lake lands, all yielded important geological information on the basis of which United Canso and its partners acquired an additional 39,680 acres (2,957 net to United Canso) through the purchase of five drilling reservations.

The Bistcho Lake area will be the focal point not only of United Canso's exploratory efforts during the next six months, but of that of a number of other companies as well. Because of United Canso's broad land coverage, all drilling in the area, whether by United Canso or others, will be followed with the keenest interest by the Company.

Roe Creek (64,160 gross acres, 6,734 net)

The Company and its partners conducted a detailed seismic program covering the central portion of their Roe Creek holdings, and subsequently drilled a test to earn 5,760 acres held under option. The Company also held a small participation in a second well. Both tests were abandoned. The partners will perform additional seismic work on these properties during the coming winter months.

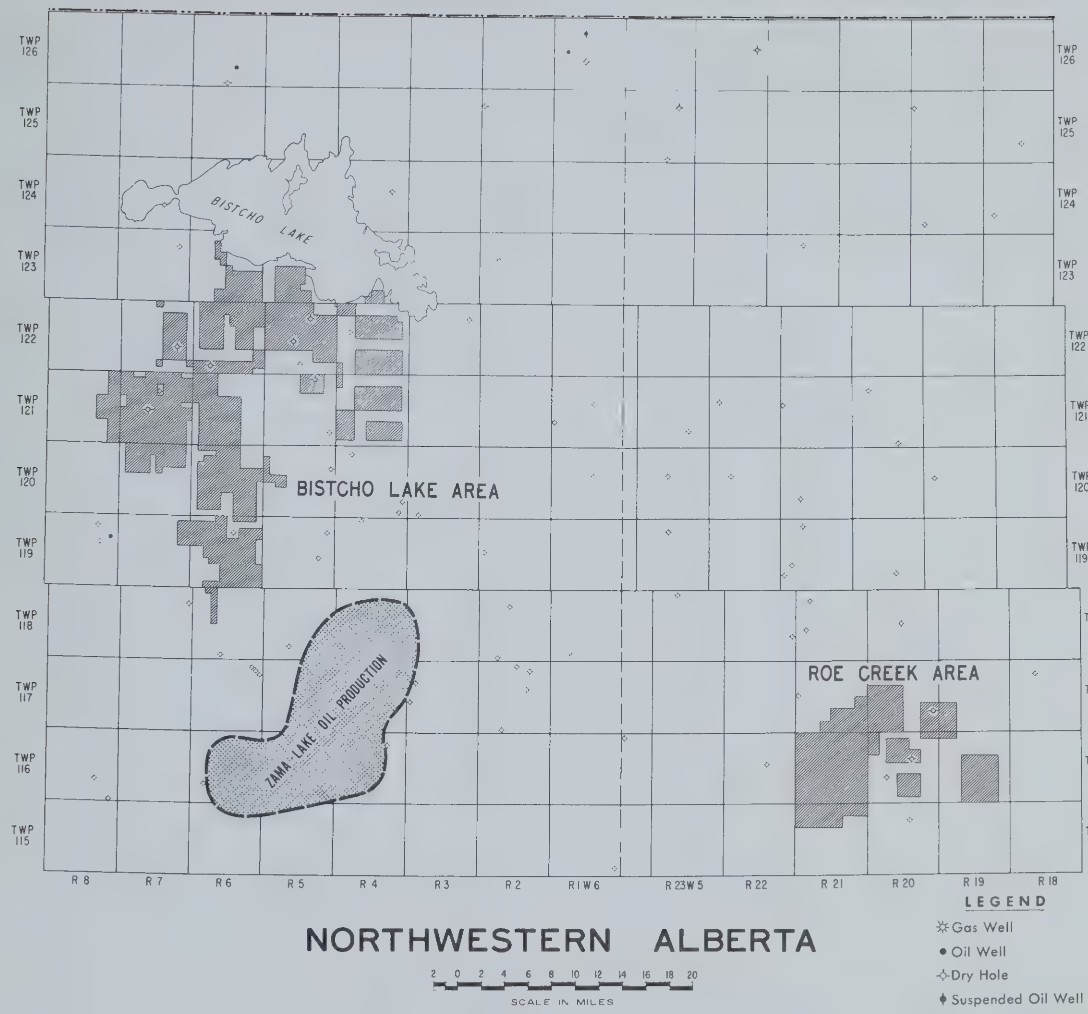
Caribou (183,000 gross acres, 9,150 net)

United Canso is participating to the extent of 5% in a detailed seismic investigation of a 183,000-acre block located approximately 25 miles northeast of Roe Creek. The program has now been completed, and is presently being evaluated. The group is committed to drill two wells on the lands, the first of which is scheduled to commence drilling in January 1968.

Cold Lake (58,520 gross acres, 4,389 net)

These properties (which are held in two blocks) are located approximately 150 miles northeast of Edmonton, Alberta, in an area which is known to hold very large reserves of low-gravity crude oil. It is believed that these reserves may be economically produced through the application of recently developed steam flood techniques.

United Canso and two other companies have undertaken to finance two steam injection pilot operations which will determine whether commercial development is feasible. Coronado Oil Company, which has had extensive experience with the technique, is acting as operator. On completion of the pilot program the Company will earn a 7.5% interest in the properties.



Exploratory drilling is now in progress on each of the blocks with the objective of delineating sand sections best suited for a pilot operation. Of the five wells drilled to date, all have encountered oil-bearing sands of a thickness believed suitable for steam flooding. Additional drilling, however, is scheduled to establish optimum conditions for the pilot flooding operations.

Lesser Slave Lake (3,540 gross acres, 400 net)

United Canso and two other companies drilled a wildcat in this area, 150 miles northwest of Edmonton, on lands farmed out from Imperial Oil Co. Ltd. which lie along the Utikuma-Nipisi oil trend. The well failed to find oil or gas-bearing reservoirs, and was abandoned.

WELLS DRILLED — YEAR ENDED SEPTEMBER 30, 1967

	Total		*Oil Wells*		*Gas Wells*		*Dry Holes*	
	Gross	*Net*	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*
Exploratory								
Canada								
Alberta	14	2.738	–	–	1	.025	13	2.713
Saskatchewan	10	4.277	6	2.025	–	–	4	2.252
Manitoba	1	.080	1	.080	–	–	–	–
	25	7.095	7	2.105	1	.025	17	4.965
Australia								
Northern Territory ..	1	.150	1	.150	–	–	–	–
Total ...	26	7.245	8	2.255	1	.025	17	4.965
Development								
Alberta	1	.500	–	–	1	.500	–	–
Saskatchewan	10	3.650	7	2.050	–	–	3	1.600
Manitoba	1	.500	–	–	–	–	1	.500
Total ...	12	4.650	7	2.050	1	.500	4	2.100
TOTAL	38	11.895	15	4.305	2	.525	21	7.065

PANARCTIC AGREEMENTS

Company-interest properties included in Panarctic Agreements

Islands	*Gross Acres*	*%*	*Net Acres*	*Panarctic Drilling Obligations*
Bathhurst, etc. (Domex)	4,030,303	11.9164	480,267	Two to three tests, totalling 18,000 feet in depth
Somerset	1,720,780	100	1,720,780	One 6,000-foot test
Devon, Axel Heiberg	1,062,947	100	1,062,947	None
	6,814,030		3,263,994	

Interests to be retained by the Company

	Maximum(1)		*Minimum(1)*	
	% Working Interest	*Net Acres*	*% Working Interest*	*Net Acres*
Bathhurst, etc. (Domex)	5.660	228,127	2.979	120,067
Somerset(2)	33.333	573,593	33.333	573,593
Devon, Axel Heiberg	73.333(3)	779,494	20.000(4)	212,589
	23.205	1,581,214	13.300	906,249

(1) Depending on Panarctic's actual expenditures in the entire Arctic Islands program, from a minimum of \$20,000,000 to a maximum of \$30,000,000, it can earn from 52.5% to 75% working interest in the Domex properties, and from 26⅔% to 80% working interest in the Devon and Axel Heiberg properties.

(2) The Somerset Island properties are divided into two blocks, each separately convertible to a 25% carried interest or a 4⅙% overriding royalty interest.

(3) Convertible to a 30% carried interest or 7% overriding royalty interest.

(4) Convertible to a 15% carried interest or 4% overriding royalty interest.

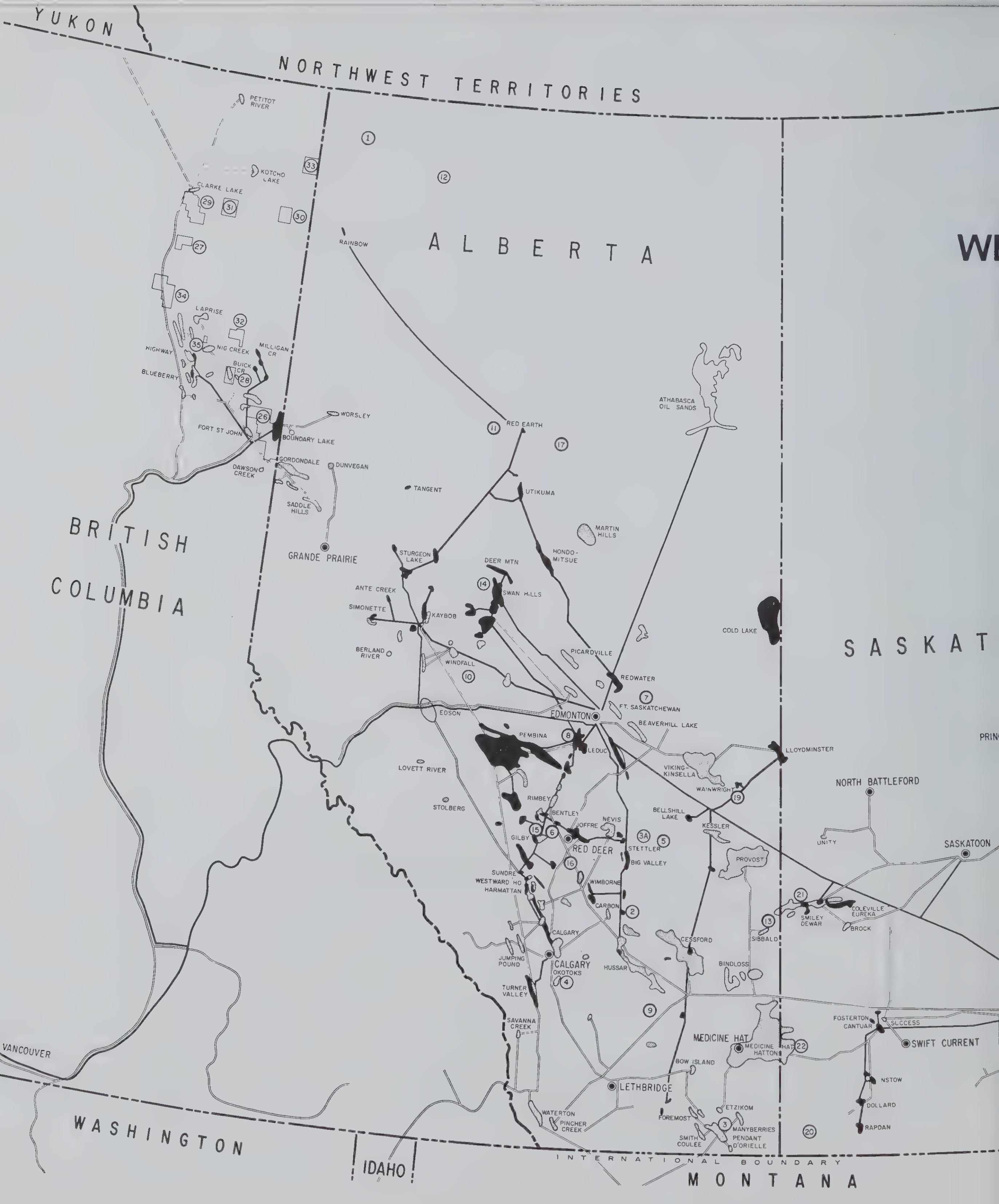
Arctic Islands (6,814,030 gross acres, 3,263,994 net)

The investment of \$11,000,000 in Panarctic Oils Ltd. by a group of large Canadian companies, with a proposed \$9,000,000 contribution by the Canadian government, would permit the commencement in the summer of 1968 of an ambitious three-year exploration program on some 35,000,000 acres in the Arctic Archipelago.

Certain modifications have been made in the original agreements affecting Company-interest lands in the Arctic as described in last

ARCTIC ISLANDS

SCALE IN MILES



YUKON
NORTHWEST TERRITORIES
ALBERTA
BRITISH COLUMBIA
SASKAT
WASHINGTON
IDAHO
MONTANA
INTERNATIONAL BOUNDARY
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PETITOT RIVER
KOTCHO LAKE
CLARKE LAKE
RAINBOW
LAPRISE
HIGHWAY
NIG CREEK
MILLIGAN CR
BUICK CR
BLUEBERRY
FORT ST JOHN
BOUNDARY LAKE
WORSLEY
DAWSON CREEK
GORDONDALE
DUNVEGAN
SADDLE HILLS
GRANDE PRAIRIE
RED EARTH
UTIKUMA
TANGENT
ATHABASCA OIL SANDS
MARTIN HILLS
HONDO-MITSUE
STURGEON LAKE
DEER MTN
SWAN HILLS
ANTE CREEK
SIMONETTE
KAYBOB
BERLAND RIVER
WINDFALL
PICARDVILLE
COLD LAKE
REDWATER
FT. SASKATCHEWAN
EDSON
EDMONTON
BEAVERHILL LAKE
PEMBINA
LEDUC
LLOYDMINSTER
LOVETT RIVER
VIKING-KINSELLA
WAINWRIGHT
NORTH BATTLEFORD
PRIN
STOLBERG
RIMBEY
BENTLEY
BELLSHILL LAKE
JOFFRE
NEVIS
KESSLER
UNITY
SASKATOON
GILBY
RED DEER
STETTLER
BIG VALLEY
PROVOST
SUNDRE
WESTWARD HO
HARMATTAN
WIMBORNE
CARBON
COLEVILLE EUREKA
SMILEY DEWAR
BROCK
SIBBALD
CALGARY
CESSFORD
JUMPING POUND
OKOTOKS
HUSSAR
BINDLOSS
TURNER VALLEY
SAVANNA CREEK
FOSTERTON CANTUAR
SUCCESS
SWIFT CURRENT
MEDICINE HAT
MEDICINE HATTON
HAT
VANCOUVER
BOW ISLAND
NSTOW
LETHBRIDGE
DOLLARD
ETZIKOM
WATERTON
PINCHER CREEK
FOREMOST
MANYBERRIES
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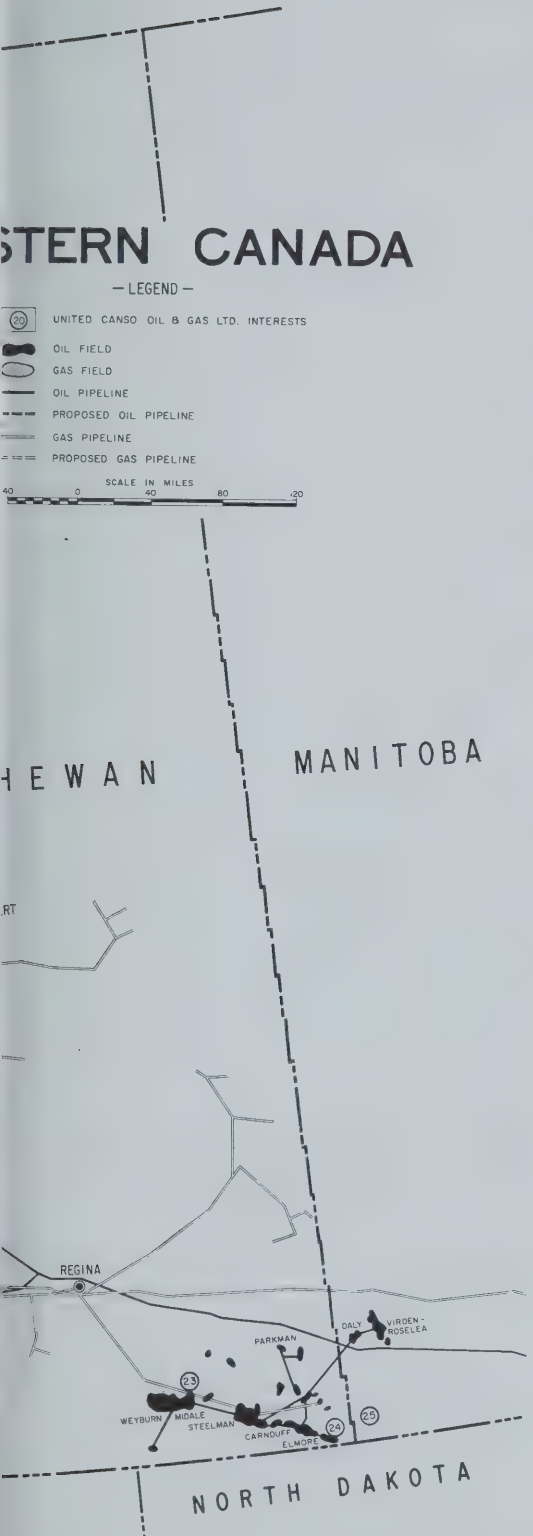


UNITED CANSO OIL & GAS LTD.
ACREAGE HOLDINGS IN CANADA
September 30, 1967

	Gross	Net
ALBERTA		
1. Bistcho Lake	151,520	18,007
2. Carbon-Drumheller	2,160	1,020
3. Foremost-Pakowki Lake	36,311	21,037
3A. Forestburg-Donalda	17,213	11,446
4. Gladys Ridge	23,357	3,549
5. Halkirk	15,807	4,721
6. Innisfail	10,121	3,699
7. Lamont	5,120	1,760
8. Leduc	13,880	200
9. Lomond	26,903	11,974
10. Mahaska	1,440	360
11. Otter Lake	1,760	440
12. Roe Creek	64,160	6,734
13. Sibbald	80,788	10,063
14. Swan Hills	20,480	2,640
15. Sylvan Lake	28,320	160
16. Three Hills Creek	23,835	800
17. Trout Mountain	16,000	240
19. Wainwright	20,080	17,240
Other Areas	17,017	9,143
	576,272	125,233
SASKATCHEWAN		
20. Battle Creek	4,641	1,856
21. Coleville Hoosier	135,569	49,935
22. Hatton	135,895	—*
23. Hume-Huntoon-Innes	81,336	43,892
24. S. E. Saskatchewan	7,879	1,685
	365,320	97,368
MANITOBA		
25. Pierson-Waskada	13,962	10,826
BRITISH COLUMBIA		
26. Boundary Lake	204,873	21,881
27. Bougie Creek	34,671	2,600
28. Buick Creek	57,998	1,450
29. Fort Nelson	87,301	2,183
30. Hay River	40,189	1,005
31. Klua Creek	51,717	3,879
32. Martin Creek	34,031	851
33. Shekile River	43,302	3,248
34. Sikanni Chief	50,162	1,254
35. Sojer	2,774	925
	607,018	39,276
NORTHWEST TERRITORIES	95,140	23,785
ARCTIC ISLANDS	6,814,030	3,263,994

* 5% overriding royalty.

year's Annual Report. Under the agreements as amended, the amount of the interest to be earned by Panarctic in United Canso's various holdings will depend on the actual sums expended in the over-all program and on the Company's holdings.

With the proposed minimum expenditure of $20,000,000, United Canso's properties will be kept in good standing at least until June 1, 1970, at no cost to the Company, and the Company is assured that at least one well will be drilled on its wholly-owned Somerset Island properties. There are no specific exploratory or well commitments on the Company's wholly-owned lands on the Devon and Axel Heiberg Islands.

On the Dominion Explorers Group lands, in which United Canso's interest is approximately 12%, the Panarctic agreements provide for a minimum of 18,000 feet of drilling (one deep and one shallow test, or three shallow tests). Panarctic may earn a proportionately greater interest in the Domex and the Axel Heiberg lands through additional expenditures in excess of $20,000,000 up to a maximum of $30,000,000.

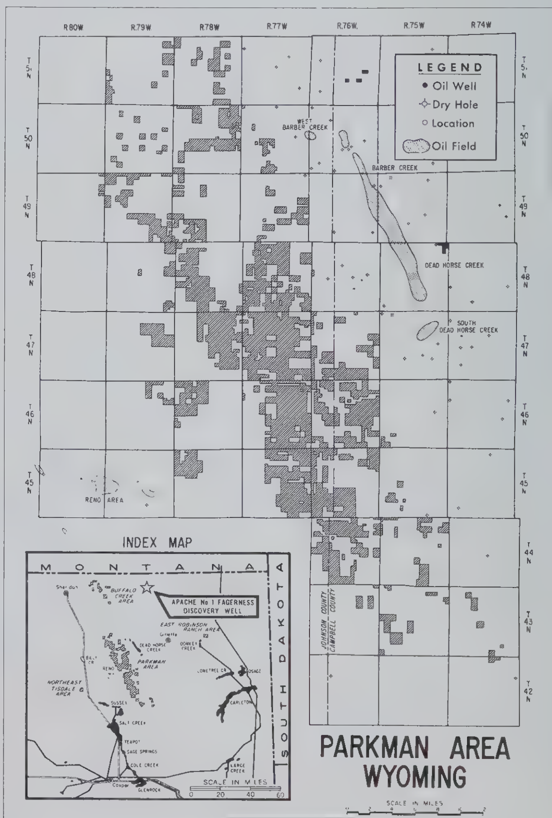
The Company would thus be assured of a very meaningful exploratory program, financed by others, on its Arctic Island properties. Under the agreements the Company will retain a minimum of 906,000 to as much as 1,581,000 net acres in the Company-interest properties which cover approximately 6,814,000 gross acres. The terms of the agreements as amended are summarized in the box on Page 9.

UNITED STATES

Wyoming (168,442 gross acres, 62,394 net)

The seismic program conducted during 1965 and 1966 in the Parkman area has outlined several structural features judged to be suitable for drilling. It is expected that an exploratory test will be spudded early next year. The well will be drilled to approximately 13,000 feet to test the Tensleep Sandstone which is productive in the Reno field 20 miles west of the proposed drill site.

Cretaceous formations above the Tensleep are also considered to be important objectives, especially in light of the Apache Corporation's announcement that its new discovery well,



located 28 miles east of United Canso's Buffalo Creek lands, is flowing over 1,000 barrels of oil per day from the Muddy (Cretaceous age) formation.

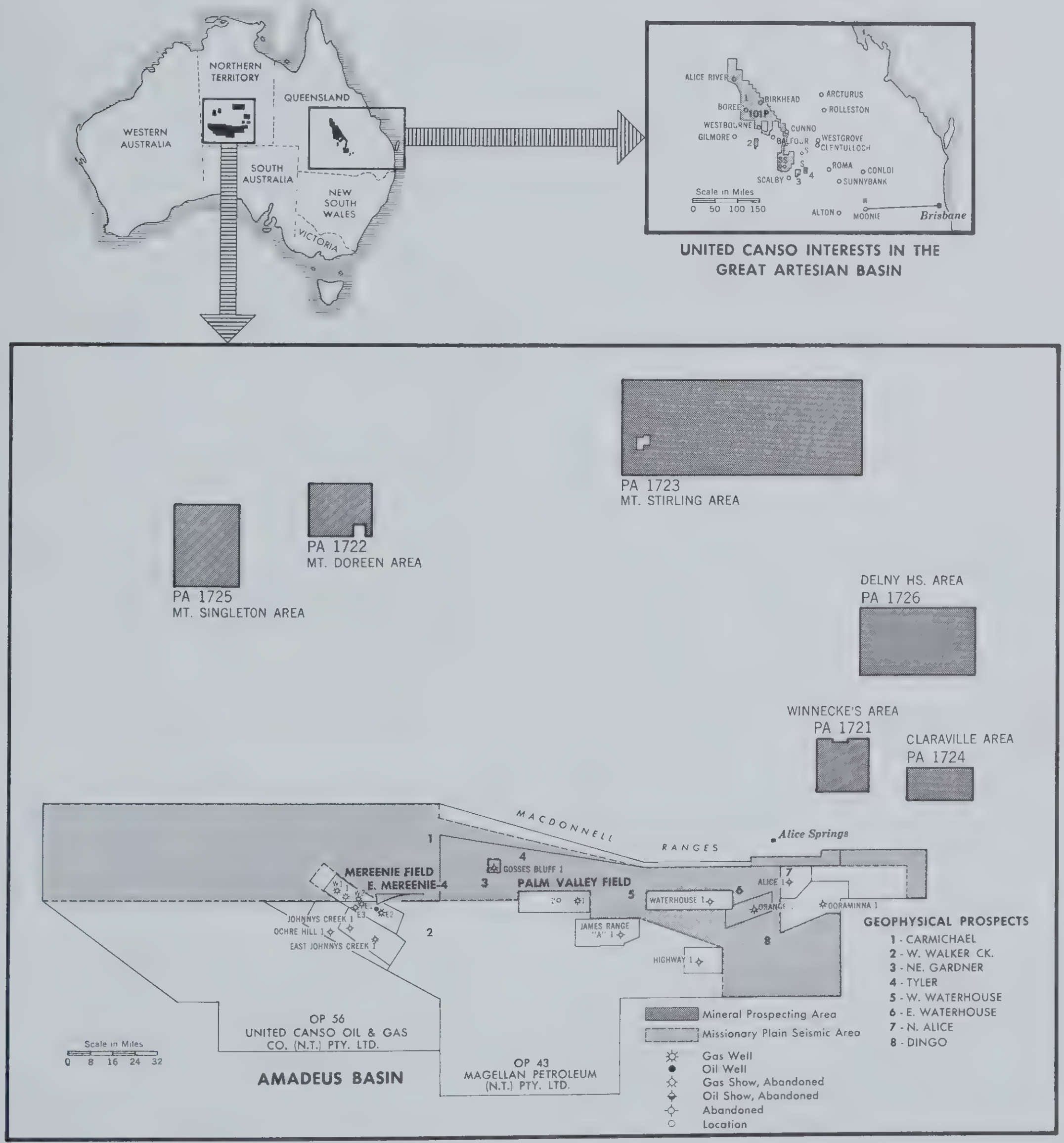
AUSTRALIA

Mereenie (146,560 gross acres, 25,184 net)

East Mereenie No. 4 (United Canso 15%), the first deep test of the Mereenie structure, was successfully completed as a Pacoota formation oil well in August 1967. Oil production rates from the well ranged from 160 to 350 barrels per day depending on choke size. In addition, the upper Pacoota sands yielded gas at a rate of 5.76 million cubic feet per day.

Previous attempts to complete flowing oil wells in the Pacoota formation were unsuccess-

UNITED CANSO INTERESTS IN AUSTRALIA



UNITED CANSO OIL & GAS LTD.

ACREAGE TABLE SHOWING TYPE OF INTEREST HELD

(September 30, 1966)

Location	Working Interest	Carried Interest(1)	Royalty Interest(2)	Total
British Columbia				
Gross Acres	298,380	344,589	—	642,969
Net Acres	25,171	8,615	—	33,786
Alberta				
Gross Acres	484,687	16,000	11,572	512,259
Net Acres	127,460	240	—	127,700
Saskatchewan				
Gross Acres	211,575	—	155,028	366,603
Net Acres	99,261	—	—	99,261
Manitoba				
Gross Acres	10,282	—	2,648	12,930
Net Acres	9,703	—	—	9,703
Total Western Provinces				
Gross Acres	1,004,924	360,589	169,248	1,534,761
Net Acres	261,595	8,855	—	270,450
Arctic Islands				
Gross Acres	6,814,030	—	—	6,814,030
Net Acres	3,263,994	—	—	3,263,994
Northwest Territories				
Gross Acres	95,140	—	—	95,140
Net Acres	23,785	—	—	23,785
Wyoming				
Gross Acres	151,477	—	—	151,477
Net Acres	55,157	—	—	55,157
Australia				
Gross Acres	22,007,680	—	—	22,007,680
Net Acres	5,805,663	—	—	5,805,663(4)
Venezuela				
Gross Acres	—	—	21,000(3)	21,000
Net Acres	—	—	—	—
Total				
Gross Acres	30,073,251	360,589	190,248	30,624,088
Net Acres	9,410,194	8,855	—	9,419,049(4)

(1) **Carried Interests**

Wherein operating charges are applied against proceeds before a return is paid. The holder of a carried interest is not obliged to share operating expenses at the time they are made.

(2) **Royalties**

Royalties are rights to a portion of petroleum and natural gas ownership without any obligation toward maintenance, development or operating costs.

(3) Converted to overriding royalty January 1, 1966.

(4) Reduced in January 1967 by 931,456 net acres upon completion by Amoseas of exploration obligations in Queensland.

PRODUCTION AND DEVELOPMENT

Canada

General

Total production of crude oil and gas to the Company's interest (after deduction of royalties) for the last five fiscal years is as follows.

TABLE A

	Productive Wells At Sept. 30, 1966		Net Production(1) (after royalties) in Canada for Fiscal Years ending September 30				
	Gross	Net	1966	1965	1964	1963	1962
Oil (Bbls.)							
Alberta	342	8.09	58,964	70,243	76,680	74,934	85,231
British Columbia	159	7.29	121,578	113,597	140,763	162,886	93,551
Saskatchewan	214	69.84	578,876	414,025	352,733	346,834	344,920
Total	715	85.22	759,418	597,865	570,176	584,654	523,702
Bbls./Day			2,081	1,638	1,558	1,602	1,435
Gas(2) (M. Cu. ft.)							
Alberta	45	11.81	1,692,081	1,667,474	1,461,867	1,601,059	1,627,886
British Columbia	25	.88	317,393	318,130	215,948	172,289	270,960
Saskatchewan	48	18.32	4,362,603	4,231,893	3,903,894	4,090,030	4,286,491
Total	118	31.01	6,372,077	6,217,497	5,581,709	5,863,378	6,185,337
M. Cu. ft./Day			17,458	17,034	15,251	16,064	16,946

(1) Excludes United Canso net production in Wyoming from properties sold in 1965 which (before royalties) amounted to:

	1966	1965	1964	1963	1962
Oil (Bbls.)	—	23,639	84,444	62,515	62,433
Gas (M. Cu. ft.)	—	5,609	27,501	28,344	—

(2) Gas Production including casinghead and plant gas; 1 M. Cu. ft. = 1,000 cubic feet.

During 1966, United Canso participated in the drilling of 35 development wells, resulting in 23 oil wells (7.95 net wells) and 5 gas wells (0.51 net wells). The year's production from the various fields, compared to previous years, is shown in Tables 1-3. Gross and net productive wells are also shown.

Oil production is currently (January 1967) at the rate of approximately 2,400 barrels per day (2,060 net barrels per day). The increase in potential resulting from the new wells in the Innes field was offset by the establishment of well allowables by the Provincial authorities limiting total production for the field to 3100 barrels per day.

During 1966 gas production showed a slight increase mostly due to an improved load factor in Saskatchewan fields as increased use is made of storage facilities.

During 1966 development continued in the Innes Field in Saskatchewan. Since September 30, 1965 United Canso has added working interests in 15 additional wells, equivalent to 4.875 net wells, plus a royalty interest in three more on leases which were farmed out. One new 100-percent-owned well was completed in Wilmar, and in Midale two new wells are now yielding royalties to the Company (see further section "Saskatchewan").

The Company does not own or operate any drilling rigs or geophysical equipment. These services are obtained by contract under the supervision of the Company's engineers, geologists and other technical personnel.

CONSOLIDATED BALANCE SHEET

September 30, 1967 and 1966 (Expressed in Canadian dollars)

ASSETS	1967	1966
CURRENT ASSETS:		
Cash	$ 307,547	$ 208,539
Bank deposit receipts and accrued interest	1,468,769	200,107
Accounts receivable	526,356	418,159
Refundable deposits	31,844	31,541
Prepaid expenses and other assets	48,189	50,638
Total current assets	2,382,705	908,984
INVESTMENTS AND ADVANCES:		
Australian companies:		
United Canso Oil & Gas Co. (N.T.) Pty. Ltd., 40% of capital stock, at cost ($322,552 and $298,074, respectively) and advances	574,321	531,172
Magellan Petroleum (N.T.) Pty. Ltd., 30% of capital stock, at cost ($418,411 and $345,124, respectively) and advances	662,341	584,963
Magellan Petroleum (Qld.) Pty. Ltd., 20% of capital stock, at cost ($545,902 and $538,402, respectively) and advances	558,705	545,349
	1,795,367	1,661,484
Smiley Gas Conservation Limited, 26% of capital stock, at cost and 5% demand notes of $59,800 and $78,000, respectively	60,060	78,260
PROPERTY AND EQUIPMENT:		
Oil and gas interests, at cost or less:		
Producing (less depletion of $3,106,637 and $2,920,950, respectively)	2,003,880	2,133,451
Nonproducing:		
Canada	1,926,950	1,842,302
Venezuela	245,592	260,477
United States	97,523	74,182
	2,270,065	2,176,961
Well costs and gathering systems, at cost:		
Producing (less depreciation and amortization of $4,142,672 and $3,798,070, respectively)	3,094,344	3,192,240
Standing (not presently producing)	248,283	276,311
Land, buildings and equipment, at cost (less depreciation of $190,803 and $189,841, respectively)	48,560	40,198
	7,665,132	7,819,161
	$11,903,264	$10,467,889

The accompanying notes are an integral part of this statement.

LIABILITIES AND CAPITAL

	1967	1966
CURRENT LIABILITIES:		
Demand bank loan payable	$ —	$ 267,373
Accounts payable:		
Trade	250,511	185,064
Magellan Petroleum Corporation	47,139	71,294
The Catawba Corporation	21,683	24,178
Total current liabilities	319,333	547,909
CAPITAL:		
Capital stock, par value $1 per share:		
Authorized — 8,000,000 and 6,000,000 shares, respectively		
Outstanding — 5,293,843 and 4,492,311 shares, respectively	5,293,843	4,492,311
Capital in excess of par value	13,754,202	12,846,370
Accumulated deficit	(7,464,114)	(7,418,701)
	11,583,931	9,919,980
Commitments (Note 3)		
	$11,903,264	$10,467,889

On behalf of the Board:

/s/ John T. Sinclair, Jr., *Director*

/s/ Roland J. Richardson, *Director*

CONSOLIDATED STATEMENT OF INCOME (LOSS) AND ACCUMULATED DEFICIT

Year ended September 30, 1967 and 1966 (Expressed in Canadian dollars)

	1967	*1966*
Revenues:		
Oil sales	$1,946,689	$1,777,711
Gas sales	617,236	680,953
Royalties	42,957	37,800
Interest and miscellaneous	37,094	7,404
	2,643,976	2,503,868
Cost and expenses:		
Lease operating expenses	510,257	486,600
Geological and geophysical expenses	304,074	165,272
Lease and permit rentals	184,749	167,912
Depletion and amortization	442,689	477,985
Depreciation	204,872	269,111
Dry holes and abandonments	391,145	294,310
Gain on sales of property and equipment	(5,433)	(303)
General and administrative expenses:		
Salaries and employee benefits	428,416	398,997
Financial, technical and other services under contract	203,062	212,721
Office rent, travel, special services and other expenses	196,838	193,429
Shareholders' reports and capital stock expenses	64,301	34,716
Legal fees and expenses	43,075	46,586
Audit fees and expenses	12,054	9,473
General and administrative expenses charged to:		
Lease operating expenses	(155,551)	(174,797)
Geological and geophysical expenses	(130,959)	(132,848)
Others	(4,200)	(8,292)
	2,689,389	2,440,872
Net income (loss)	(45,413)	62,996
Accumulated deficit at beginning of year	7,418,701	7,481,697
Accumulated deficit at end of year	$7,464,114	$7,418,701
Net income (loss) per share based on average number of shares outstanding during the year	$(.01)	$.01

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF WORKING CAPITAL

Year ended September 30, 1967 and 1966 (Expressed in Canadian dollars)

	1967	*1966*
Source of working capital:		
Net income (loss)	$ (45,413)	$ 62,996
Charges against revenues not involving working capital during the current year:		
Depletion and amortization	442,689	477,985
Depreciation	204,872	269,111
Retirements of property and equipment	124,459	156,693
Decrease in notes receivable from Smiley Gas Conservation Limited	18,200	6,500
Sales of capital stock	1,709,364	—
	2,454,171	973,285
Disposition of working capital:		
Additions to property and equipment, including the conversion involving Act Oils Limited's properties in 1966	617,991	1,495,214
Increase in investments in and advances to the Australian companies	133,883	240,287
	751,874	1,735,501
Increase (decrease) in working capital	$1,702,297	$ (762,216)

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

September 30, 1967

1. BASIS OF THE FINANCIAL STATEMENTS

The accompanying consolidated financial statements include the accounts of United Canso Oil & Gas Ltd. (United Canso) and its wholly-owned U. S. subsidiary, Canso Oil & Gas, Inc. (Canso Oil & Gas), hereafter referred to collectively as the Company. The accounts of Canso Oil & Gas have been translated at the rate of $1 U.S. = $1.0740 Can. Unrealized loss from translation, which is not significant, has been charged to other expenses. The excess ($174,815) of United Canso's investment at September 30, 1967 over its equity in net assets of Canso Oil & Gas, representing net loss since inception, has been included in accumulated deficit in the accompanying consolidated financial statements.

Realization of the investments in and advances to the Australian companies (see Note 2) and of the investment in nonproducing property and equipment is dependent upon future developments, since the properties and property interests, represented by these assets, are substantially unexplored or have not been developed.

2. INVESTMENTS AND ADVANCES — AUSTRALIAN COMPANIES

United Canso acquired a substantial portion of its interest in the Australian companies from Magellan Petroleum Corporation (Magellan) in September 1963. A substantial portion of the remaining interest in the Australian companies is held (directly or indirectly) by Magellan and Pantepec International, Inc. (formerly Pantepec International Petroleum, Ltd.).

The Australian companies have interests in petroleum and mineral exploration concessions and permits in Queensland and the Northern Territory of Australia where exploratory activities are in progress. In connection with these activities, the Australian companies have entered into agreements with various oil companies covering exploration of certain property interests held. Under these agreements the varous oil companies have earned or may earn up to a 50% working interest in such property interests.

United Canso's equity in the combined net assets (adjusted to cost) of the Australian companies was approximately $705,000 and $600,000 as compared to United Canso's investment of $1,286,865 and $1,181,600 in the capital stock of such companies at September 30, 1967 and 1966, respectively. The net assets of the Australian companies consist primarily of deferred drilling, geological, geophysical and administrative costs.

3. PROPERTY AND EQUIPMENT

In 1954 United Canso and Canada Southern Petroleum Ltd. (Canada Southern) each acquired a 50% share ownership of Act Oils Limited (Act Oils). In October 1965 Canada Southern purchased United Canso's 50% share ownership of Act Oils. In a related transaction United Canso in November 1965 purchased certain property interests and equipment from Act Oils. The end result of these transactions was that United Canso converted its beneficial interest in the properties held by Act Oils to a direct one.

United Canso's interest in Venezuela was acquired from Pancoastal, Inc., formerly Pancoastal Petroleum Limited (Pancoastal), in 1961 and consisted of a one-half carried interest in Pancoastal's 50% undivided interest in a nonproducing concession. During 1964, a well was drilled on this concession at Pancoastal's expense, resulting in the discovery of a field of low-gravity oil. Effective January 1, 1966, as a result of an agreement with Texas Petroleum Company (Texpet), United Canso's interest in Venezuela was exchanged for a cash payment of $53,797, a 50% interest in a sliding-scale royalty ranging from 3¢ to 8¢ per barrel on 50% of the gross production from the concession in excess of 5,000 barrels per day and the undertaking by Texpet to drill a minimum of three exploratory wells on the concession before April 1, 1967. During the first quarter of 1967 Texpet drilled the required three wells which encountered shows of low-gravity oil. These wells have not

NOTES TO FINANCIAL STATEMENTS

September 30, 1967

yet been tested and are presently suspended. The cost of United Canso's interest in Venezuela is being amortized over the remaining period of the concession rights which expire in 1984.

Depletion is computed by the unit of production method applied to the amounts assigned to the producing portion of interests retained in each original permit area. Depreciation of well equipment and amortization of intangible drilling costs are computed by the unit of production method based on estimated reserves available to all existing wells in each field. Depreciation of buildings and equipment is provided on the straight-line method at rates based on the estimated useful lives of the various classes of assets. The net cost of abandoned wells, which had previously been producing, is charged against the accumulated depreciation and amortization account of the remaining wells in the producing area.

Lease rentals and drilling commitments in connection with properties and property interests held by the Company at September 30, 1967 approximate $615,000 for the year ending September 30, 1968.

4. THE CATAWBA CORPORATION

The amounts shown in the consolidated statement of income (loss) and accumulated deficit for financial, technical and other services under contract represent charges from The Catawba Corporation (Catawba). United Canso's current (expiring April 1969) and prior contract with Catawba have provided for payments based on services rendered and the granting of a 1/64th overriding royalty on all properties acquired by United Canso during the term of the contract. The contracts also have provided for special compensation for services rendered not contemplated under the contracts. Catawba provides similar services to the Australian companies, Magellan Petroleum Corporation, Pantepec International, Inc., Canada Southern Petroleum Ltd. and Pancoastal, Inc. Certain of the stockholders, officers and employees of Catawba are directors, officers and/or stockholders of United Canso and the other companies mentioned above.

5. CAPITAL, STOCK PURCHASE WARRANTS AND STOCK OPTIONS AND RESERVATIONS

During the year ended September 30, 1967 the Company sold 801,532 shares of its capital stock realizing net proceeds of $1,709,364. The par value of the shares sold ($801,532) was added to capital stock and the balance ($907,832) was added to capital in excess of par value. Of the shares sold during the year, 760,532 shares were sold with stock purchase warrants, each warrant having the right to purchase one-half of a share of the Company's capital stock, pursuant to a "Subscription Offer" made by the Company to its shareholders dated March 30, 1967. At September 30, 1967 there were 760,532 stock purchase warrants outstanding for the purchase of 380,266 shares of the Company's capital stock. These warrants entitle the holder to purchase shares of the Company's capital stock at a price of $3.75 for each share purchased on or before March 31, 1969; $4.50 per share from April 1, 1969 to March 31, 1971 and $5.25 per share from April 1, 1971 to March 30, 1972. During the two years ended September 30, 1967 there were no other changes in capital stock or capital in excess of par value.

At September 30, 1967 there were no stock options outstanding and 10,000 shares were reserved for future grants of options. During the two years ended September 30, 1967 there were no changes in shares under option or in shares reserved for future grants of options.

6. ALLOCATED EXPENSES AND COMPENSATION

Certain employees and office facilities are shared with Canada Southern Petroleum Ltd. and certain of the general and administrative expenses represent allocated portions of common expenses. Compensation of directors, officers and a senior employee and contributions to a pension plan on their behalf allocated to or paid directly by United Canso amounted to $125,273 and $16,208, respectively, for the year ended September 30, 1967.